JANUARY 1958

Mortgage Banker

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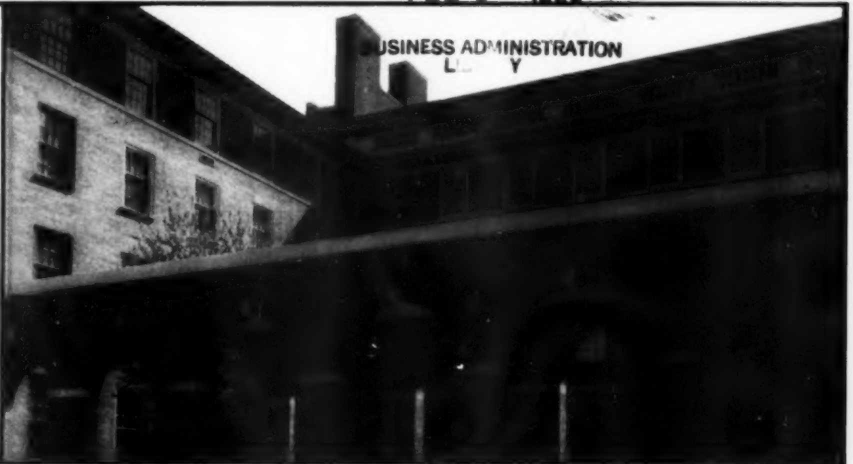

. . . the second opportunity: the MBA-SMU Senior Executives Conference, Dallas, Jan. 26-28. Each is designed to probe deeper than the surface information makes possible, to fully explore what really determines the mortgage climate.

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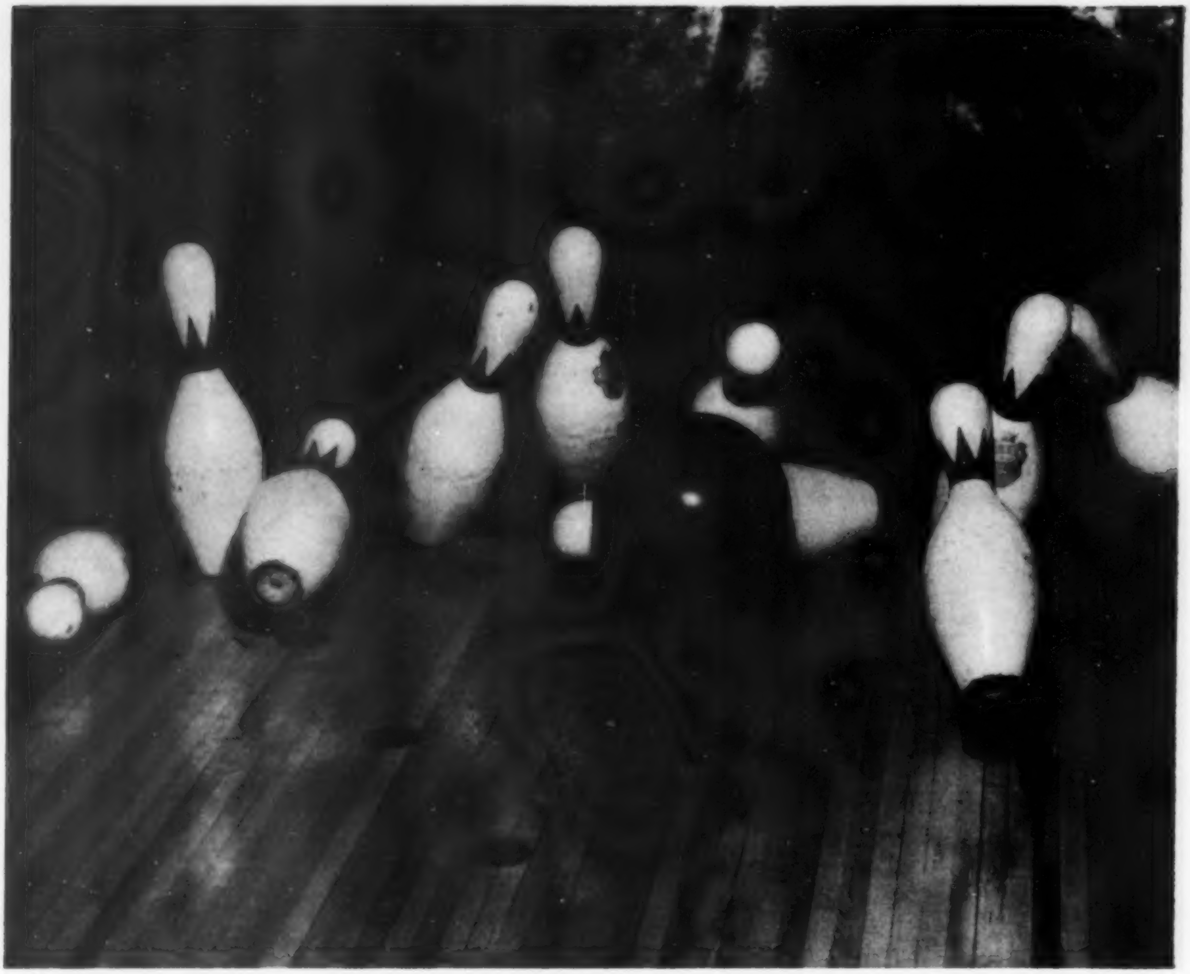
in this issue — — — — — — — — — — WHAT WILL THE MORTGAGE BUSINESS BE LIKE IN 1958? AUTHORITATIVE OBSERVERS GIVE THEIR ANSWERS HERE



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MBA 1958 Calendar

January 21-23, Senior Executives Conference, New York University, New York

January 26-28, Senior Executives Conference, Southern Methodist University, Dallas

February 6-7, Mortgage Servicing Clinic, Emerson Hotel, Baltimore

February 24-25, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago

February 26, Board of Governors Meeting, Conrad Hilton Hotel, Chicago

March 6-7, Mortgage Servicing Clinic, Statler Hotel, Detroit

March 24-25, Southern Mortgage Conference, Dinkler-Andrew Jackson Hotel, Nashville

April 14-15, Eastern Mortgage Conference, Hotel Commodore, New York

April 21-22, Western Mortgage Clinic, Hotel Lassen, Wichita

May 8-9, Southwestern Mortgage Clinic, Del Coronado Hotel, San Diego

June 22-28, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 29-July 5, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 27-August 2, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 3-9, School of Mortgage Banking, Course II, Stanford University, Stanford, California

November 3-6, 45th Annual Convention, Conrad Hilton Hotel, Chicago

The Mortgage Banker

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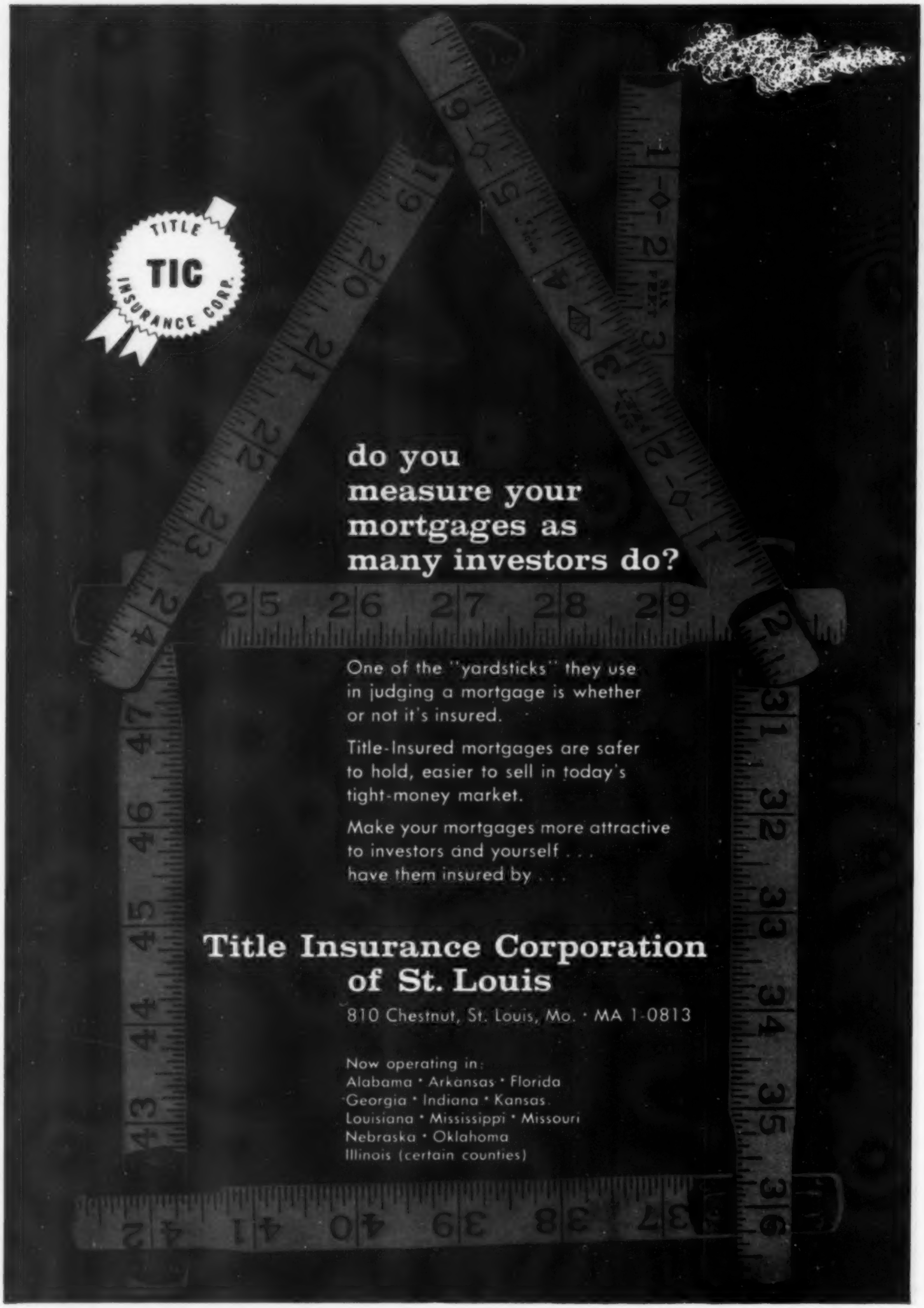
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BUSINESS HAS TURNED DOWN BUT, ON THE WHOLE, IT MAY BE FOR THE BEST

The long looked-for readjustment in business is here—provided the government does not revert to deficit financing on a large scale. But how can one call it a sound development, as Dr. Nadler does? Answer: what we have just begun to experience will dissipate the forces of inflation. It will eventually lead to an increase in productivity of machines and labor and will lay the foundations for a better future. And it doesn't make any difference how pessimistic one is today (and there seems to be a lot of people who fall within that category) a depression of major magnitude is not in the making, Dr. Nadler believes. "A major depression cannot take place."

THE downturn in business and the decline in the equity market, have caused a great deal of concern. The wave of confidence which set in in the early part of 1953 has given way to pessimism; and no matter where you go there is apprehension about the future, the economic future of the United States, and what is of equal importance, the Russians who lurk in the dark and whose aim it is to destroy our system by all means at their disposal.

Is there any reason for pessimism? Is there any reason for this great concern? I believe that if we analyze these questions: where do we come from? Where are we today? Where do we go from here? We will soon see that the situation is pretty clear that there is no reason for fear nor for apprehension.

Let's buy equities. If we need a home, let's buy it today. If we need a plant, let us build it today. Because when we return to deficit financing, the inflationary forces will reassert themselves. Whether the government will do it or not, I don't know. But should this be the case, then you will know that there is a real danger that the inflationary forces will reassert themselves and that this in turn will set in motion forward buying by management, and by individuals. The long-range consequences will not be good but the immediate outlook for business will be changed.

I do not believe that this will take place. Now, note, I say "believe." I don't say it is my opinion, because an opinion has to be based on facts. I say it is a belief and you can't argue with a man's belief. I believe that the administration does not wish to return to deficit financing. It may be that the public debt will be increased but only by $2 or $5 billion in order to give the Treasury room to move around in. And if you see in January that the administration asks for an increase in the public debt of only $2 or $5 billion, then you know that the economic forces will prevail, that the forces of inflation will not reassert themselves. This being the case, having expressed my belief that this will be the attitude of government, I can't see where the expenditures by the Federal Government can materially be increased.

That brings us to consumer expen-

By DR. MARCUS NADLER

Professor of Finance, Graduate School of Business Administration, New York University

ditures. These divide themselves into three parts: durable goods, nondurable goods; and services. I am certain in my own mind that expenditures for nondurables will increase. I am quite sure in my mind that expenditures for services will increase. But I doubt whether the sale of durable goods in 1958 will be as high or higher than during the past year. Why? Prices are high. Nobody will lengthen the term of sale beyond three years. In the meantime, interest rates have increased. Other charges have increased and the automobiles prices themselves are somewhat higher. The people are heavily indebted and a great many of them are desiring to get out of debt.

Then, employment opportunities don't look as favorable as they were a year ago. There won't be the opportunity to work overtime. And the opportunity to obtain a job for two or three hours additional a day will not be as great. And therefore I reach the conclusion that expenditures on durable goods will not increase. And therefore, if you will look at the economic picture of the country, you will find this—outside of government, there is no major force to push the economy upward in the immediate future. On the contrary, you can see a number of forces which will push the economy down.

We do know however that the government will intervene. After all, the government under the obligation of the Employment Act of 1946 will endeavor to maintain the economy stable and growing.

What will the government do? What can the government do? First, money rates will go down. A decline in money rates in the immediate future is to be expected. But the decline in money rates does not act immediately. There is a time lag between the decrease in money rates and its impact on business activity, as we have seen in 1953 and 1954.

Two, there is a possibility that individual incomes taxes will be reduced. But please don't spend the money yet. If there is a decrease in the income tax, and it is still highly doubtful, it will not be applied to you or to me. It will be primarly for the lowest income groups, partly economic, but primarily political. The Lord made

more in the lower income groups than in the higher income groups and they all vote. It is quite certain that lowering the money rate will stimulate public works; the demand for public works is still very great and a lowering of interest rates and an increase in bond prices is bound to have an impact on public works, and it may even in time revive home building.

But I come back—unless the government reverts to large-scale deficit financing, which I do not believe will take place, and should it take place would there really be a great calamity? But unless this takes place, we are headed for a downward readjustment.

Now a readjustment is painful but is it sound or unsound? That is the most important question. Let us put it this way. When a child has overeaten, what do the parents do with a child? They give him castor oil. Now it isn't a pleasant task to give a child castor oil but we know it is good for it. We have overdone in home building in 1955. We oversold automobiles in 1955. We over-expanded on plant and equipment. We went heavily into debt. We didn't inquire as to—can this continue forever? Now we know that if one overdoes it today, the smart man will go on a little diet tomorrow.

Now is that bad? In my humble opinion, a readjustment is desirable because it could remove some of the maladjustments which I will analyze in a moment and lay the foundation within a relatively short period of time, for an upturn. I admit "relatively short" is a good hedge word. I don't tell you how long. But in a relatively short period of time we will again resume the upward course.

But right now the question before us is this: Will the pattern of this readjustment be similar to the one of 1953-1954? Or even milder? If you remember, the readjustment of 1953-1954 was very mild.

Will it be more pronounced as was the case in 1948 or 1949? Or are we really in for some more serious decline? That is the question.

Now here again if I were to state that I do know—even though I have qualified myself as an authority and an expert—you will say "This fellow Nadler is some liar." Or "he must

have a crystal ball which is not available to anybody. He must have gotten it from the Sputnik." I don't know. Nobody knows. And again the only thing that we can do is to analyze the underlying economic forces and see what comes out. We have strong forces and we have weak forces, and the strong forces in the economy are these:

One, the disposable income in the hands of the people is great. The economic security of the people of the United States is unrivaled and unmatched. Not only do we have social security of various forms but also we have supplemental unemployment benefits in many industries, and the people have a large volume of liquid savings at their disposal. To be sure, there are people who have nothing. They prefer to go on relief. But a great many people have money saved up just for such an occasion.

Two, we do know that local government expenditures will increase. The population in the United States is growing at a rapid rate. There is a great need for schools, for highways, and there is a great need for playgrounds and hospitals. And as I said before, the moment money rates go down and the supply of savings and capital increase, public works will increase materially.

> *"(If) we return to deficit financing, the inflationary forces will reassert themselves. Whether the government will do it or not, I don't know. But should this be the case, then you will know that there is a real danger that the inflationary forces will reassert themselves and that this in turn will set in motion forward buying by management, and by individuals. The long-range consequences will not be good but the immediate outlook for business will be changed. I do not believe that this will take place."*

Finally, our economy is dynamic. Whether we have a readjustment or not, the increase in population will continue. Whether we have a readjustment or not, the number of babies born in 1958 in all probability will be as great as 1957, if not greater. The moment a baby is born, it becomes a customer from the textile industry to the steel industry.

Moreover, research goes on. Billions of dollars are being spent on research. Research creates new products, new methods of doing business, makes old machinery and equipment so much more obsolete; and while capital expenditures by corporations will go down, they will still be larger than in 1955. You see, therefore, we are not dealing here with a sick economy. We are dealing with a baby that went to a party and overate a

little and needs some dose of castor oil.

While this is so, we must not overlook the fact that certain maladjustments have crept into our economy, and these maladjustments briefly analyzed are as follows:

One, discrepancies in wages. In some industries wages are so high that the people in the lower income brackets cannot afford to buy their product. For example, in metropolitan New York the cheapest home costs $18,000. Now how many people can afford to buy a home for $18,000? The cost of labor in the building industry has gone up to a point where the average American cannot buy a home without a government subsidy, nor can he move into a new apartment without a government subsidy. And I wonder whether this is not true in a number of other industries?

Two, the productive capacity of the country is very great, and while I know that the economy is highly dynamic and growing, I wonder whether for the immediate future (and the word "immediate" again is a good hedge word because I don't know for how long), the productive capacity is not too great, whether industry stimulated by the great demand for goods in 1955 did not overdo the over-expansion in 1956? I am quite sure, although I don't know, that many industries are raising the same question.

> *"This readjustment that is taking place does not negate the long-range future. It is merely an interruption. The long-range future of the United States remains as favorable as possible. We hope that during this period of readjustment some of the maladjustments will be eliminated and that the integrity of the dollar will be maintained. The man who will retire in the next few years will be able to look forward with greater confidence to the purchasing power of the dollar than today. It is a painful process but a sound one. It does not detract from the fact that a long-range outlook for the United States is as brilliant as ever."*

Three, private indebtedness is very large. During the last ten years private indebtedness has gone up by $300 billion. The boom—the greatest postwar boom—was based to a considerable extent on borrowed money. Question: will the people be willing to borrow on the same scale as before, or not? Will industry be willing to borrow on the same scale as they did before? Who knows? A great deal will depend on psychological forces. A great deal will depend, for example, on what happens to the equity market. A great deal will depend on the attitude of the consumer, whether to spend or save. And all this plays a

very important role in our economy because nearly 50 per cent of all the expenditures are optional in character. Only about 50 per cent are necessities.

And third, a great deal will depend on the international political situation. And who can predict that? We find, therefore, that while inherently the economy is sound, while inherently our economy is dynamic and growing, yet there are certain maladjustments which if they should converge at the same time could cause the decline in business activity to go farther and last longer than is expected today.

Now what conclusions can one draw? The conclusions that I draw are these:

» *One,* the boom has run its course, and we are in for a period of readjustment. Every readjustment is painful because during a period of readjustment the men are being weeded out from the boys. A few weeks ago I delivered a talk and I said that the men are being separated from the boys, and one man turned to me and he said: "Professor, what do you mean by that?" And when somebody addresses me in public as "professor" and doesn't dignify me with the title of "Mister" I know he is no friend of mine. So I told him "I will give you the answer."

I said, "Did you ever notice when a man and a boy come to a mud puddle? The man invariably will walk around. The boy walks through it." And I looked down and I said, "I think I can see mud on somebody's shoes."

A readjustment is painful and in your dealings with customers, make sure that they don't have mud on their shoes. The boys are being weeded out from the men. Competition is keen and will become keener and the weak and inefficient will fall by the wayside.

» *Two,* unless we revert back to large-scale deficit financing, we are in for the readjustment. This readjustment in my opinion is on the whole sound because it will bring the forces of inflation to an end. It will lead to an increase of productivity of machines and labor and will lay the foundation for a better future.

» *Three,* no matter how pessimistic you may be, a depression of major magnitude is not in the making. All the forces which brought it about in 1939 are not present. A major depression cannot take place. And I am old enough to know when I use the word "cannot" that I must have thought it over carefully.

» *Finally,* this readjustment that is taking place at the present does not negate the long-range future. It is merely an interruption. The long-range future of the United States remains as favorable as possible. We hope that during this period of readjustment some of the maladjustments will be eliminated and that the integrity of the dollar will be maintained. The man who will retire in the next few years will be able to look forward with greater confidence to the purchasing power of the dollar than today. It is a painful process but a sound one. It does not detract from the fact that a long-range outlook for the United States is as brilliant as ever.

Challenge of Sputnik: Can We

Grow Fast Enough to Survive?

Not many events of the Twentieth Century delivered quite the shock to the American people as did Sputnik. As a result, our lives will be changed in countless ways and the pattern of tomorrow, in industry, in defense, in almost every aspect, will be altered. The challenge of Sputnik is not only to our security: it poses other questions in our economy which Mr. Neal describes and suggests solutions for consideration now.

Alfred C. Neal

By **ALFRED C. NEAL**
President, Committee for Economic Development

IN the last few months we have become aware of a challenge to our own future as a nation and to our civilization as great as any that we have ever faced. We have discovered that a nation which is producing no more than the United States produced 34 years ago, a nation which is ruthlessly controlled both by dogma and by government, a nation which is in most ways the antithesis of our own civilization, has nevertheless been able to develop military strength based upon advanced science and technology which seriously challenges our existence.

We now realize that the Soviet Union may be able before long to pulverize us all by push button and that we may be able to do the same to them. We realize further that we may face international blackmail if the Soviets think that our defense can be overwhelmed without serious damage to themselves.

After recovering from our initial shock, most of us have been trying to find out how our competitors have made so much progress. Next we have sought ways of improving our deteriorated position.

It should now be clear that the Soviets have decided to compete in fields of their choosing, not ours. We have put our emphasis upon raising the standard of life of the average citizen and of permitting and encouraging the individual to develop to his highest capacity. The Soviet Union has done neither of those things and apparently does not wish to compete in those fields. They have concentrated their effort first of all on the development of military strength—the industrial base for defense and the science and technology useful for weapons development. In the international field they have chosen to

influence the uncommitted underdeveloped nations of the world most useful to their design for expansion, mainly in the Middle East and Asia.

Because the Soviet Union has chosen to compete in a field which challenges our own existence as a nation and our influence in the world, we must of necessity meet their competition. We have not yet fully realized that this means changing some of the most cherished goals of our economy. The goal of the ever-higher standard of living must take second place to the goal of superior military strength on an immediately available basis and the goal of an effective international economic policy.

Many of our national economic policies and institutions must be re-examined in the light of the priorities required by the new competition.

High on the list for re-examination is Government finance. We shall have to spend more money upon defense, upon scientific development, upon education, upon mutual security (which includes development assistance abroad), and probably upon civil defense.

The burden of these additional Government expenditures will be less to the extent that we can accelerate the growth of production out of which the means for our security must come. We can accelerate that growth, both here and abroad, by releasing strengths of the competitive enterprise economy which are held in check by unwise policies.

Those policies which protect vested interests or hamper incentives for growth should be the first to be re-examined and to be revised. CED has just expressed itself on our agricultural price support policy which now costs us about $5 billion a year and which, by and large, restrains our productivity instead of releasing it. CED earlier expressed itself on international economic policies and on the desirability of releasing productive capacity abroad through private foreign investment and through economic development assistance. CED has consistently opposed restrictive labor practices which hold down productivity. And finally, CED has repeatedly called for revisions of our Federal tax system to release incentives for growth.

Another great area requiring re-examination in the light of the new competition is our financial system. The financial system of the United States and the price system whose workings it lubricates are key elements in meeting the new competition. One of the most important means of accomplishing anything in a free economy is by financing it. Are we sure that our financial institutions and policies are capable of facilitating maximum economic growth without inflation? Are we sure that our means for restraining inflation and deflation are operating with minimum damage to vital parts of the economy?

CED nine years ago advocated the establishment of a national monetary commission to review our financial institutions and policies. Recently we took our own advice and, with the assistance of The Ford Foundation, sponsored a commission of our own. It will be entirely private in character and entirely privately financed.

It was altogether appropriate for CED, which unites the talents of the scholar with those of the business leader, to name a group of distinguished research leaders and university presidents to give "advice and consent" to the Chairman of CED in selecting a commission which would provide both the competence required for the job and public respect for its findings.

The commission when selected will be self-governing, and the scholars who work for it will have the freedom for research which is conducive to their own best efforts. The commission's study will be at least a three-year job. It will be comprehensive in scope. It will be guided by what is in the public interest rather than what is in the interest of any particular group in the economy.

While many problems of finance call urgently for study, I can suggest two in which the adequacy of private finance may not be up to the requirements of the new competition. One is private finance of foreign investment by financial institutions as

contrasted with direct investments by American corporations operating abroad.

The other is the financing of small and growing business which has been the backbone of growth and innovation in the American economy. Largely because of our heavy corporate tax rate and the extremely progressive personal income tax rates, together with the institutionalization of the flow of savings in our economy, growing businesses have difficulty, whether money is easy or tight, in obtaining adequate finance for expansion. These two problems, I am sure, will be among the many that will be of concern to the Monetary Commission.

Now to return to the arena of competition with the Soviet Union. There is an analogy here with the kind of competition which every business faces in a competitive economy. If your competitor gets the jump on you, you count first on the ability of management to devise the means to counter it. The same thing is true of the ability of the American economy to meet the new competition of the Soviet Union in military strength and international influence. We must have the right people properly trained in the right jobs. It is here that the American system has fallen down most in the postwar period.

Unfortunately the new competition requires far more of Government than did the process of raising living standards. Raising living standards in the American economy has been primarily the result of the private competitive enterprise system, backed up by private savings and investment and accelerated by private science and technology. Harnessing management and science to defense, and harnessing management and finance to economic development abroad, the primary areas of the new competition, call for a larger role for Government than did the economic growth of the country.

Government does not provide attractive careers for people in top management or middle management in business. It does not even provide an attractive career for those in the higher professional levels. The pay scale for the top men who run our Government is but a fraction of the pay of similar jobs in private industry. While some of our best business statesmen have been recruited for top Government jobs at great personal sacrifice, this is not easily done for key lower echelon positions, and it is difficult indeed to attract career men from private pursuits for top civil service assignments in Government.

Clarence Randall recently dramatized this point with a comparison. The head of our ICA mission in a key country in Southeast Asia earns less than the highest paid bricklayer in Inland Steel's plant!

So long as our major concern was to raise the standard of life of the American people we could afford to have less than the best management in Government. Now that our major concern is to maintain our civilization, to say nothing of the lives of our people, we cannot afford to have less than the best. Unless we are to resort to compulsion, the pay scale for the higher level Government jobs must be raised. To counter the Soviet challenge, the talents that have made American private industry great must become available to Government as they are needed. If they are to be available when needed, we must adopt throughout Government the principles of the Cordiner report—we must pay people in Government more nearly what the market pays for similar ability.

In the longer run, to meet the Soviet competition we must do far more than we have been doing to develop the talents of the American people. This starts with our system of education. Here we may ponder some con-

trasts with the Soviet system of education.

Only two out of five in the top quarter of their high school classes go to college in the United States. In the Soviet Union more than a quarter of the top grade high school graduates are offered free higher education and all but the weakest students are actually paid to go to college.

Russian children are getting more hours of instruction in their ten-year elementary and secondary system than American children receive in twelve years, and they are receiving that instruction at the rate of seventeen pupils per teacher in contrast with the American average of twenty-seven pupils per teacher.

One of our top military scientists stated recently: "It is time we faced up to the fact that few American students at the age of 21 or 22 know as much after a four year college course as most European secondary school graduates know at the age of 18 or 19."

Russian students graduating from the tenth grade in 1955 had completed five years of physics, four years of chemistry, six years of foreign language and five years of mathematics above the arithmetic level. In the same year less than a third of American high school graduates had taken a year of chemistry; about a fourth had a year of physics; and about one in fifteen had taken advanced mathematics.

In these statements there is summed up, I think, the nature of the problem. But if we are to meet that problem, we must meet it with people. The fact is that our civilization has put too low a premium upon intellectual attainment. When our major concern was to raise the standard of living, the axiom "Those who can, do; those who can't, teach" was probably not a bad one. In the new competition which is based so heavily upon science, technology, languages and the use of people of top caliber in public service, it is necessary to change our scale of values about teachers.

The Soviet system values teachers on a higher scale than does ours. The head of a department in a Russian university makes on the average about eight times as much as the average Russian factory worker. His counterpart in the United States makes only about twice as much as the average factory worker. High school teachers of science and mathematics can double their school salaries by taking jobs in public industry. In terms of real buying power, the average salary of American high school teachers is no greater than it was in 1904; the real buying power of the American industrial worker has been multiplied by two and one-half times since 1904.

I wish I had some easy answers to the problems of education. I am only sure that the right answers are going to cost time, study, and money. To find the right answers will require the attention of men of ability and responsibility throughout the land. We must surely raise the pay of teachers, make teaching a more attractive profession and encourage more people of high capacity to enter the teaching profession.

Because education is mainly a state and local responsibility, we need to review the sources of revenue of state and local governments and the division of tax sources between the Federal Government on the one hand

and state and local governments on the other. Education is going to cost more, but the state and local governments have not found ways to pay the bills. Recognizing these problems, CED has studies under way on state and local finances and on the financing of education. These and similar studies will be worth little if responsible leaders throughout the nation do not concern themselves with the problem.

Better educated citizens, and sound leadership in the management of our public as well as our private affairs, will go a long way toward meeting the new competition. But these things, even though backed up by the most highly productive economic system in the world, will not be enough. Over and above men, management and materials, we need something else. We need a new sense of national purpose—a purpose so elevated in concept and so identified in the mind of every citizen that we all know where we are going. We do not have that sense of purpose today. Our reaction to the new threat and most of what I have said here is defensive. We can successfully meet the competition, but can we set a pace which will leave the competitor behind?

I submit that in our belief in the dignity of man and his freedom to develop fully we have a goal which forms the basis for a sense of national purpose. Our purpose, I suggest, is to bring to more than a billion people on this earth whose lives are "nasty, brutish and short" the possibility of realizing their full individual capacities as brother men. We need something of the crusading spirit, something of the missionary's zeal, to permeate our national consciousness and to play at least some part in our daily activities.

I do not know how we are going to achieve this new sense of national purpose, but I believe that helping to achieve it is going to be one of the major responsibilities of leadership in any walk of life.

Condensed from Mr. Neal's address at the National Association of Mutual Savings Banks Midyear Meeting.

More Than We Thought

Preliminary results of the 1956 national housing inventory conducted by the Bureau of the Census, indicate a net increase of 9.4 million dwelling units in the United States between April 1, 1950 and December 31, 1956. The total number of dwelling units, as of December 1956, was approximately 55,340,000. This represents an average annual gain of roughly 1,390,000 units over a period of six and three-quarter years, substantially exceeding the average annual gain of 870,000 dwelling units between 1940 and 1950.

The net increase was less than the total new construction of 10,920,000 units. The difference of more than 1.5 million reflects the net effect of losses by demolition, merger, and other types of withdrawals and of additions through conversions and other sources. Changes within existing structures resulted in both gains and losses in the inventory. Gains amounting to 710,000 units resulted from conversion, that is, dividing one dwelling unit into two or more. An additional 940,000 units were created from nonresidential space and from such quarters as transient accommodations and rooming houses. Conversely, 1,130,000 units were demolished, 670,000 dwelling units were lost through merging two or more units into fewer units and 1,410,000 were lost through changing dwelling unit space into nonresidential space or into rooming houses and through abandonment and disaster.

The greatest proportionate increase in the inventory occurred inside standard metropolitan areas where there was an increase of 23 per cent while the inventory in the territory outside of standard metropolitan areas increased by 16 per cent. Although in April 1950, 56 per cent of the inventory was in standard metropolitan areas, 62 per cent of the new dwelling units added were in such areas.

This is the first time that comprehensive figures have been collected on the kinds of changes that affect the housing supply. The 1956 data are based on a sample survey conducted during December 1956 and are, therefore, subject to sampling variability.

The NHI data on units added by new construction should not be compared directly with the BLS series on new permanent nonfarm dwelling units started during the same period.

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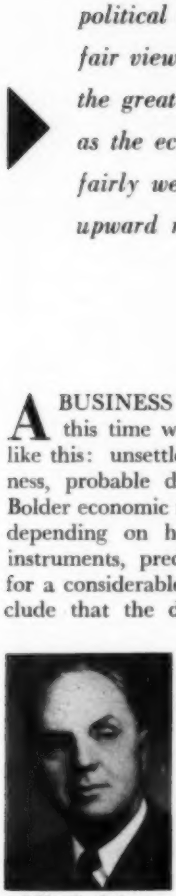
How It Looks for Mortgages and Building in 1958

It's difficult to know just where we're heading under current economic, political and international conditions; at best, we can have only a fair view of where we are at the moment. One thing is clear: the great 1954-57 boom is over. There will be disturbing moments, as the economy reshuffles itself—but the year should balance out fairly well, with better than fair prospects for a renewed upward movement in 1959.

By **MILES L. COLEAN**

A BUSINESS weather forecast at this time would read something like this: unsettled, continued cloudiness, probable drop in temperature. Bolder economic meteorologists might, depending on how they read their instruments, predict storm and cold for a considerable period; others conclude that the drop in the business temperature will not be great, that the winds will be moderate, with clearing skies not too far distant; some *(see Fortune Magazine for December)* can see the sun about to break through. Averaging such views we end up just about where we started.



Miles L. Colean

The plain fact is that we do not and cannot know just where we are headed under the current economic, political, and international configuration. We can at best have only a fair view of where we are at the moment.

It seems at least clear that the great 1954-57 boom is over. The upsurge in expenditures for capital plant and equipment has come to a pause. Employment has ceased to rise; month-to-month increases in personal income can no longer be reported; industrial production is already down from its peak levels; the price rise, even at the point of retail sales, has ground to a halt.

These are all signs of a recession; and the signs are evident enough to leave no doubt about it. Business is off. The real questions of course are: How far off is it likely to go? And for how long a time is it likely to stay off? These are the questions about which our present information is inconclusive.

This is a good time to emphasize the fact that economic prediction is not an exact science. It is probably too much to claim that it is a science at all. Those who claim that by putting some combination of index numbers into a formula they can end up with a dependable answer are, to my mind, medicine men rather than scientists.

The trouble is that chance, the unforeseen variable, plays so large a part in the economic equation. For example, Sputnik—at least so far as the economic analyst is concerned and apparently also so far as our defense people were concerned—was an accident. Before it happened, it was possible to assume a tighter budget and a cut in taxes. After it happened, these assumptions were no longer tenable. Besides this, a new psychological factor came into the equation.

The President's recent unfortunate attack was another example of the play of chance on the economic equation. Its full impact on the business picture, by way of its influence on international relations, budget policy, monetary policy, and public attitudes, simply cannot be accurately weighed at the moment. And, naturally, we have no way of knowing what other accident may be in store during the coming months.

At a time when the economic current is running strongly in one direction or another, such accidents may exert little added influence on the course of things. For instance, during the period when the capital expansion was in full swing, the momentum probably would have absorbed the shock without a serious deflection of the trend line. If the trend had been definitely downward under such circumstances, it would have been likely to increase the dip.

It is when the economy is at a point of rest between a slackened boom and

what might be either a downturn or, after a mild "breather," a renewed expansion that these chance impacts are least calculable. We are at such a point today.

With all these reservations in mind, we may take another look at present conditions and at what they might portend:

First, we should recognize that, whatever may be our apprehensions and misgivings, the economy is at a very high level in terms of output, employment and earnings. Some loss of steam, therefore, does not necessarily foretell disaster.

Second, we see no imbalances in the economy serious enough to prevent what we might call a "rolling recovery." By this I mean that the fall-off in capital expenditures and the temporary excess of producing capacity in some lines *could* be counterbalanced by an increase in consumer purchases of durable goods and housing.

Third, government expenditures—Federal as well as state and local—seem certain to rise. Although not an unmixed advantage, this does at least at this juncture provide another kind of offset.

Fourth, an easier credit situation is in the making, and means are available if needed to carry the relaxation to considerable lengths.

If the potential offsets, stimulated by easier credit, can become fairly promptly effective and if, in the meantime, businessmen and consumers can keep a cool nerve, the year 1958 could turn out not to be a bad one after all. My inclination is to believe that the chances favor such an outcome.

When the offsets are closely examined, it is apparent that construction has a key role to play. The volume of new construction in 1957 will reach a total of over $47 billion. Estimates for 1958's activity center around $49 billion, an increase of about 4 per cent. Within the wide range of construction operations, public works looks good for an increase of 7 per cent or better and will provide a hearty supporting element; and in this connection, an easier credit situation should release a number of projects that have been held back by difficulties in arranging financing.

Private building will at least hold to its 1957 level. Industrial construction (following the trend in capital expenditures) may be down perhaps close to 10 per cent from the 1957 peak figure; but commercial building, with better credit prospects, may slightly better its recently sagging rate. Private institutional and recreational building and religious building should be steady or slightly up. Utility construction on the whole will move ahead by 4 per cent to 6 per cent to a new high point.

Outside the area of public works, the key to 1958 is in private residential building. From 1956 to 1957, due to the disabilities created by fixing interest rates and discounts on insured and guaranteed mortgages at submarket rates, new private dwelling unit construction dropped 10 per cent in dollar volume and 11 per cent in the number of new units started. During the last few months an encouraging pick-up in the number of new starts has taken place.

Can this encouraging improvement be maintained? I think it can, if credit conditions are favorable and if buyer confidence doesn't slip. The statistical evidence on behalf of an increase is strong. Vacancy rates are certainly not excessive and appear to have been declining through most of 1957. The number of new dwellings started minus the number demolished or otherwise taken out of the market seems to be less than the net number of new families created during 1956 and 1957, leaving the presumption of at least an incipient shortage. The potential demand adds up to probably as much as 1.2 million new dwelling units in 1958.

It would be more than optimistic to assume that the official count will reach this figure. The guaranteed loan system is in the death throes and is unlikely to be resuscitated. The FHA system, under the weight of discount and interest rate control, is still badly crippled. The conventional mortgage system has probably come close to reaching the limit of the number of buyers who can meet the downpayment requirements or are able to find the needed supplementary second mortgage financing.

At the same time a real upturn in FHA activity is possible. To a moderate extent it is already occurring. Had the authorities last August established a marketable yield pattern it is likely by this time FHA would have gone far toward absorbing the last of VA's facilities. If they could bring themselves even now to grant a measure of ease to the restrictive conditions they have imposed, a strong upturn would be expected.

Lacking such a move, the only prac-

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tical possibility of increasing the volume of housing is the one that will come gradually as general credit conditions ease. In the course of the year this is bound to happen. The recent strength of the bond market shows evidence of this and it is likely that the trend will continue. The volume of savings in 1958 will grow and the demand for corporate financing, while remaining fairly high, will decline from the super plateau reached in 1957.

So far the slight shift in the supply and demand for funds that has taken place is due almost wholly to the working of the natural forces of the market rather than to any manipulations of the central bank authorities. The action of the Federal Reserve Banks in lowering their discount rates actually was a recognition of a change already underway rather than the initiator of a change in direction. Technically, all it did was to make it easier for member banks to borrow from the Reserve Banks—at a time when the need to borrow was slackening.

The Reserve action did, however, have a psychological impact extending much beyond its technical implications. It served clear notice that the monetary managers had reached the conclusion that it was no longer necessary or advisable to increase restraint on credit but, rather, that the time had come when some of the restraint could be safely relaxed. The immediate effects were all that could be asked for. The tone of the bond market improved at once and the then pending Treasury financing was carried through with great success.

Since that time (up to December 15) although the Federal Reserve appears to have made no further moves other than to meet seasonal demands for funds, the bond market has remained firm. The Reserve apparently has adopted an attitude of wait and see. The things it is presumably waiting to see are the complexion of the new budget—to be revealed early in January—and the way in which the Treasury's January financing comes off. The tools in the Reserve kit are still available. Reserve Bank purchases of government obligations could be stepped up to any extent considered advisable; commercial bank reserve requirements could be substantially decreased if occasion required; and the discount rate could be dropped again. Such actions would certainly be taken whenever the authorities consider that some positive stimulation is called for.

So again we come to the crucial influence of the element of chance in the business outlook. In this case it is the chance that the FHA authorities will take the steps necessary to make certain that insured mortgages are widely and readily acceptable in the market and the chance that the Federal Reserve authorities will do the right thing at the critical time. Other chances are hidden in the unknowns of the year's legislation, though little that the Congress in its wisdom may enact is likely to have a major impact on 1958's activity.

The safe thing to assume is that the Reserve will be slow to act and the FHA won't act at all. If this should be the case the easing of credit, while it may be counted on, will be gradual; FHA financing will continue to labor under a disadvantage; residential building will get off to a slow start and fall well short of its possibilities. If one could be sure of prompt FHA action the difference in dwelling unit production might even yet be as much as 100,000 units during the year, that is, the difference between less than a million (as now seems a dependable figure) and something close to a 1.1 million.

At the worst, however, the dollar volume of residential building in 1958 should be enough to reverse the 1957 slump and hence assure a comparatively bright prospect for construction as a whole and a vigorous support to the general business structure. The next several months will have some disturbing moments as the economy reshuffles itself amid a very uneasy political situation. But the year should balance out fairly well with better than fair prospects for a renewed upward movement in 1959.

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» HOUSE STATISTIC: Consumers with incomes of $5,000 and over now own more than half of all the nonfarm homes in the country.

The comparable ratio of home ownership for this income group was less than a third in 1949, when a much smaller proportion of the nation's spending units had a $5,000 a year income.

The figures show that practically eight out of every 10 nonfarm spending units with incomes of $7,500 or more were home owners as compared with fewer than seven out of 10 in 1949. For the income bracket of $5,000 to $7,500, nearly two-thirds owned their own home this year as compared with somewhat over half in 1949.

The Available Money for

THE pattern of funds available for mortgages has already been fairly well set for 1958. This comes about through the slow pace at which mortgage financing moves and the necessity of working through forward commitments. Managers of substantial mortgage accounts frequently issue commitments from four months to as much as two years ahead of the date anticipated for the delivery of the mortgage and the payment of money to the borrower.

Unlike securities, there is no common market where mortgages may be bought and sold. Therefore, when new construction is planned, prudent borrowers negotiate the terms of their mortgages before the actual construction begins. This is necessary in order to make certain that satisfactory financing will be available when needed.

It takes about a year to a year and a half to complete the planning and construction of single family dwellings in the northerly sections of the country, and from six months to a year on the West Coast and in the South. Except for relatively simple structures in the commercial field, the time is even longer. Add to this the time to negotiate the loan and complete the necessary legal work, and one begins to realize the slow pace of mortgage financing, particularly on new construction.

All this contributes to the slow response of mortgage closings to the more rapid day-to-day changes in the money market. The volume and terms of current mortgage commitments, when that information is available, are quite useful in showing current trends in the mortgage market, and in predicting future trends in mortgage closings.

Except for the life insurance industry, there is little published information available on commitments. We do know, however, that the combination of the slow response of the mortgage markets to changing monetary conditions, and the substantial time requirements of mortgage financing serve to prevent any sudden changes in the flow of money into mortgages. This makes it possible to project the amount of money going into the mortgage market for as much as a year in advance. If current information is available on commitment activity and commitment backlogs, the prediction can be made with a high degree of accuracy. Enough of these facts are known to justify some interesting predictions on mortgage lending activity in 1958. Let's look at some of this information.

The most important sources of mortgage money, in their order of importance, are first, the savings and loan associations; second, the life insurance companies; and third, mutual savings banks. In 1956, this group accounted for about 70 per cent of all new mortgage loans closed.

Last year the assets of the savings and loan associations increased at a slightly lower rate than in 1956. Their new mortgage loan acquisitions were off 2½ per cent in the first nine months of 1957 from a comparable period in 1956. Since savings and loan associations invest almost entirely in mortgages, they are likely to continue a rate of investment consistent with their growth in deposits. So long as this growth continues on a stable basis, they will probably be a dependable source of mortgage funds. Faced with a slow down trend in their rate of growth, however, as they are at present, they have reduced the volume of their mortgage acquisitions.

Life insurance companies and mutual savings banks have more diversified investments than savings and loan associations. They are in a position to shift investment activity from one type of investment to another when market conditions warrant. Since both the securities market and the commercial and industrial mortgage field currently offer better net yields than residential mortgages, it can be assumed that these institutions have shifted to the higher yield investments to as great a degree as is consistent with their longer term investment policies. Should the monetary authorities ease credit supplies sufficiently to reduce bond yields, it would increase the comparative attractiveness of residential mortgages to the life insurance companies and the mutual savings banks, and might thereby cause some of their available funds to be shifted back to the residential mortgage market. That change, if it comes about, will not be a sudden one but it will be a healthy one for the traditional and necessary spread between the gross rate on mortgages and securities has disappeared to the detriment of the mortgage market.

In the first nine months of 1957, mortgage acquisitions by life insurance companies were off 23 per cent from 1956. In the first nine months of 1957, against the same period for 1956, mutual savings banks were down about 20 per cent in acquisitions of non-farm mortgages of $20,000 or less.

The best current information available on life insurance mortgage lending activity comes from the forward commitment studies compiled each month by the Investment Research Staff of the Life Insurance Association. These studies show current com-

or Mortgage Loans in 1958

Here are the views of a prominent investor on the outlook for 1958 funds for mortgages and construction. The improved money market conditions are recognized but Mr. Tobin reminds us that—because of the very nature of the business itself—the pattern for this year has already been pretty well set. Available funds will be less but originators will be able to do all right under the curtailment. "For the correspondents of mortgage lenders who have attempted to maintain a reasonable consistent mortgage investment program, the adjustment to the 1958 supply of funds has already been made. That is true in our own operation for, early in 1957, when it became apparent from trends then developing that we would have less money for mortgages in 1958, we began a gradual adjustment of our mortgage operations to that pattern. Therefore, though our supply of funds for mortgages in 1958 will be down $56 million from 1957, a reduction of 25 per cent, any immediate curtailment in our mortgage operations to meet that limitation will be slight and in some cases, no adjustment at all will be necessary as far as our correspondents are concerned. I am sure the same pattern of operation has been followed by other large institutional lenders."

By **HOWARD J. TOBIN**

Vice President in Charge of Mortgage Loans, The Northwestern Mutual Life Insurance Company

mitment activity, commitment backlogs, and future take down estimates for life insurance companies representing approximately two-thirds of the assets of all U. S. life companies. As of September 30, 1957, outstanding commitments for mortgage loans and real properties for these companies totaled $2,143,000,000, down $603 million, or 22 per cent from the same date a year ago. Breaking this down, commitments for industrial and commercial mortgages were down 21 per cent, and non-farm residential commitments down 33 per cent. Farm loan commitments were down only 5 per cent. In the residential mortgage category, conventional loan commitments were off 15 per cent, while commitments for insured and guaranteed loans were down 52 per cent with all of the decline taking place in VA loan commitments.

It is quite clear from these figures that life insurance companies will close fewer mortgage loans in 1958 than in 1957.

Here are some specific figures from Norhtwestern Mutual's mortgage operations which illustrate this decline. In 1954 we invested $197 million in mortgage loans and real estate. This figure increased to $255 million in 1955, the peak year. There was a small decline in 1956 to $242 million, and the total in 1957 was about $216 million, down 16 per cent from the peak year. A further reduction to $160 million is scheduled for 1958, down $56 million from 1957, and off $96 million or 38 per cent from 1955.

This sharp cutback in our projected mortgage activity for 1958 invites the question—WHY? What makes it necessary? The answer is simple. We have less money to invest. Our rate of growth in assets is down moderately even though our sales have increased substantially each year, and investable funds are down even more. The slow down in our rate of growth comes from three things:

» Increased rate of cash withdrawal under death claims. Understand mortality rates have not increased. In fact, they have improved. But, whereas in 1955 only half the funds under death claims were actually withdrawn, in 1957 almost two-thirds were paid out. In two years time, the rate of cash withdrawal under death claims has increased by 25 per cent, equal to about $8 million per year.

» Discretionary withdrawals. These involve funds left with us at interest. The rate of withdrawal, after allowing for growth in the size of Company, has increased 30 per cent, or $5 million in 1957 against 1955.

» Surrenders. This concerns policies purchased in past years which are

surrendered or canceled for their cash surrender value. Again, after allowing for growth, surrenders are up $11 million or about 50 per cent in 1957 against 1955.

Now, consider three more factors which have not affected our rate of growth, but have been equally effective in reducing investable funds:

» Increase in policy loans. After allowance for growth, policy loans were up an additional $14 million in 1957 over 1955.

» Decrease in the rate of repayment on mortgages. The repayment rate was about 10 per cent in 1955 and is now down to about 8 per cent, which means, on our mortgage account, $26 million less in investable funds. Also bond calls are off $22 million in the same period, down from $34 million in 1955 to $12 million in 1957.

» Reduction in security sales for reinvestment. As late as 1955 we raised over $100 million for investment through security sales; and although there is a substantial volume of short term governments and other marketable securities in the portfolio, we do not believe it is prudent to plan an investment program for 1958 which depends on the sale of securities to any appreciable extent.

The combination of the reduction in the rate of growth in assets—increased loans to policyholders—reduced loan repayments, and discontinuance of security sales will reduce our overall bond and mortgage investment program in 1958 by almost $200 million from the 1955 figure. I am sure our position is not unique in that respect either among life insurance companies or other types of financial institutions.

Now here are some of the predictions that seem to be justified by the facts at hand:

Because of the slow pace of mortgage financing, it is unlikely that any governmental regulatory actions which conceivably would be taken now, will have much effect on mortgage closings before 1959.

It would not be surprising if private housing starts in 1958 fell below the 1957 figure, perhaps as much as 10 per cent. However, housing starts in that range may well take care of the demand from purchasers with sufficient equity funds to qualify under existing loan patterns. More than one expert in this field has expressed serious doubts that the basic demand for housing at the present time, even on somewhat easier credit terms, is strong enough to warrant optimistic forecasts for an increased number of housing starts in 1958, and I agree with them.

Funds for most types of business property loans in 1958, though less than 1957, should be in reasonable supply. As long as such loans carry better gross rates and cost about half as much to service as residence loans, it is only natural that mortgage funds will flow more readily to that type of investment. For the last three months, our commitments on new business property loans have been made at rates averaging ten basis points higher than the rates on our residence loans. This bears out one of the peculiar conditions of this market—the larger the loan, the better the rate.

An exception to the availability of funds for business property loans may be the financing of shopping centers. I believe that type of loan will be more difficult to obtain. The bloom seems to be off the shopping center boom. The combination of higher financing costs, increased equity requirements by lenders, and the less rosy expectations for earnings are all exerting a dampening effect on new shopping center developments.

Money for farm loans should be in adequate supply and rates lower than for residential and business property loans of comparable quality. With deposits in country banks holding up well, with the Land Banks and insurance companies actively seeking farm loans, there should be no shortage of funds in that field.

For the correspondents of mortgage lenders who have attempted to maintain a reasonable consistent mortgage investment program, the adjustment to the 1958 supply of funds has already been made. That is true in our own operation for, early in 1957, when it became apparent from trends

(Continued on page 43, column 1)

As Mr. Tobin Analyzes 1958—

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- Funds for most types of business property loans in 1958, though less than 1957, should be in reasonable supply. As long as such loans carry better gross rates and cost about half as much to service as residence loans, it is only natural that mortgage funds will flow more readily to that type of investment.
- An exception to the availability of funds for business property loans may be the financing of shopping centers. I believe that type of loan will be more difficult to obtain.
- I doubt if there will be much change in 1958 from the present pattern of mortgage interest rates. It looks now as if the supply and demand for mortgage funds in 1958 will be more nearly in balance than in 1957.
- One hopeful sign for 1958 is that after the first or second quarter, there will probably be no further reduction in forward commitments for mortgage loans.

President's Page

SOME OBSERVATIONS ABOUT OUR INDUSTRY AS WE MOVE INTO A NEW YEAR

THIS is written just before we close out another year. I would like to take the opportunity to express my grateful appreciation to our membership for the many kind expressions of loyalty which I have received and also for the helpful suggestions and contructive criticisms which have been made. Please continue to favor me with your criticisms and suggestions. I assure you they will be given serious consideration.

Mortgage bankers generally experienced a very difficult year in 1957 which was a period of limited funds for mortgages—and high cost money. In addition, we are now confronted with the problems of continued pegged interest rates on insured and guaranteed loans, together with discount controls.

John C. Hall

Let us hope then that those in Washington who are responsible for this unworkable situation in which we find ourselves will soon see the folly of their decisions and will realize and admit that no Government price controls have ever been found to be practical. Let us also hope they will eventually concede that money is a commodity—just as are the building materials which are used in constructing a home and that its price should be allowed to fluctuate in a free market according to the varying conditions in the financial system. Unless this is done, I believe we shall have another slow year in house building—an *unnecessarily* slow year. I say "unnecessarily slow" because the potential demand is here. All that is needed for its greater realization is a free mortgage market in which our industry is allowed to compete for the funds it needs with other types of investments. We are hopeful this badly needed relief may be forthcoming in the not too distant future.

By way of encouragement, the Federal Reserve Board, by its surprise move in reducing the rediscount rate, indicated that, in the opinion of its members, the inflationary trends have been arrested. This, together with the Federal Reserve Board's more active support of the bond market, has created a more optimistic feeling, I believe, by investors toward mortgage investments. Many believe they will follow-up with a reduction in reserve requirements which would help to make money easier.

Most economists believe we will overcome the recession in which we find ourselves before the end of 1958. There will be a slight increase in the type of savings which go into mortgages. There is already less demand for funds for industrial expansion.

The price of bonds has improved in recent weeks.

These factors, together with a moderate over-all easing of credit, lead to the conclusion that in the neighborhood of one million private housing units will be built and financed in 1958. Over-all new construction will aggregate $49 billion, an increase of about 4 per cent over what it is expected the 1957 figure will show. Everything considered—1958 should be a reasonably satisfactory year for mortgage bankers. And, if the officials in Washington should decide to free the interest rates of FHA loans, I sincerely believe our prospects of building and financing a *conservatively estimated* potential of 1,100,000 residential units is excellent—provided the decision is forthcoming in the immediate future.

I would like to take this opportunity to suggest to our Mortgage Banker members (and they comprise about 90 per cent of our regular membership) that, particularly during the present uncertainties we keep in mind that the investment officer of a life insurance company, a savings bank, or of any other investor organization, has the responsibility to invest trust funds on the most favorable possible basis. Let us realize they have this very definite obligation and not *object* to their position but, on the other hand, use our best efforts to make investing in mortgage loans through the correspondent system relatively more attractive.

Also, let us make a New Year's resolution—and one not made just to be broken—to realize and more than fulfill our obligation to the investors we are so fortunate to represent. Realize that the more thorough and efficient manner in which we service the loans entrusted to us—the greater the regard will be which the investor has for the correspondent system. This is true not only with regard to the proper servicing of loans but also with regard to our ability and willingness to produce sound loans on an acceptable basis for our principals.

Let us, as mortgage bankers, further resolve (and never forget) that the continuing successful operation of our business is definitely and entirely dependent upon the continuing judgment of our principals that the correspondent system is the best, most efficient and most economical manner for a principal to conduct a mortgage loan investment operation. Let us, during 1958, do everything possible and practical to encourage this thinking.

In closing, please accept my very best wishes to you for a very Happy, Healthy and Successful New Year.

Jno C. Hall

PRESIDENT

P.S. Construction expenditures during the next ten years is estimated to aggregate between $500 and $600 billion—more than the value of all building of all kinds now standing in the United States. Let's Get Ready.

A New Way of Testing

Area Potential

The author, head of the national mortgage investment firm bearing his name, has followed area and location trends over the past five decades and has a national reputation for selecting correct locations for his investors' real estate funds.

By **GEORGE W. WARNECKE**

THE days of real estate clusters as determinants of real estate values are over. And 62,000,000 automobiles and 52,000,000 telephones are principally responsible.

Technological advances providing more rapid connection between homes, offices and factories have demolished the proposition that a building is a good investment because it is one of many in the same area or that it's automatically a poor risk because it's the only one of its kind in the particular neighborhood. It no longer follows.

Geo. W. Warnecke

Today's location values depend on access rather than nearness, on time rather than distance and future rather than past facts.

In our work of putting out long term mortgage money on large real estate we have had to be more and more cognizant of changing area trends. We have had to avoid the pitfalls of early pioneering and wait for such trends to become more definitely established. At this point, however, we—and the mortgage experts of institutional investors who have assisted in our survey—believe a situation has been reached where further advances will only strengthen but not reverse existing trends so that it is correct to speak of new principles of area assessment as the title indicates.

In the following an attempt has been made to sum up the various areas of our experience and lay down some of the basic location factors influencing modern mortgage financing:

Residential Construction. The urbanization of the country has taken place at an increasing tempo over the last twenty years. There has been a wider dispersal of residential housing, both of the single family and the multi-unit type.

Family living in the immediate metropolitan areas has become more and more limited to families with adults. Many of the former family residents of downtown areas who have children have either purchased homes or taken apartments in the suburbs.

Back in the days when the cluster test was still rigidly applied to residential housing, lenders would insist on mortgage locations inside the zoned residential areas of the metropolis. Just as the purchase of a home was a paramount decision in the life of a home buyer (it isn't any more today), the financing of each unit was normally a separate decision.

In the first quarter of the century, too, apartment houses were expected to be within 10 minutes walking time from schools, shops, churches and public transportation. Distances of more than half a mile from such facilities would certainly have disqualified a borrower.

Today, entire tracts of land, sometime 30 or 40 miles outside the big cities, such as Lake Forest, Ill., are developed by enterprising promoters and, in the heyday of post-war housing, commitments for 1,000 to 2,000 single family houses at a clip were nothing extraordinary.

Where should the line be drawn? Obviously, distance from the nearest conglomeration of improved tracts alone has become an unsatisfactory test. An out-of-the-way hamlet may become a center of gracious suburban living *if*—if a certain super highway is built or a proposed bridge is constructed. A nearby shopping center may replace the far-away downtown shopping area of the nearest big city.

These, then, are some of the criteria of residential housing investment which have evolved in recent years:

The Family Car. The modern home owner or suburban tenant can almost be presumed to have a family vehicle, if not two, and to *like* to use it. After all, he has moved from congested parking areas in the city to enjoy the living of a country-squire. He is prepared to take *10-minute drives to take care of household needs* and willing to *travel up to 15 miles to work* in exchange for the privilege of living in a less crowded atmosphere.

Shopping. Most home buying decisions or apartment leases are made, or at least influenced, by women. A conveniently situated shopping center, a bright and well-stocked supermarket nearby, and a branch department store within easy driving range have become far more important than vicinity to the husband's place of work. In some instances, a progressive investor may even take a chance on

financing a residential development within a half-hour drive or bus trip from downtown shopping areas. But *normally the 10, and on the outside, 15-minute limit* tells the story. The strongest advantage is still possessed by a development which has general *all-around shopping facilities within easy walking distance* but, as was mentioned—it's no longer an absolute "must."

Rapid Transit. The very basis of suburban residential building is the idea that families are prepared to make sacrifices in return for the possibility of having themselves and their children near a parklike environment, tennis courts, beaches, forests and lawns. But where, as in New York, the city is still the center of all activity this idea can be carried too far.

Trouble arises when the advantages of suburban living are outbalanced by the inconvenience of travel. As a rule, a lender will do well to limit his financing to developments in the two-stage transportation range, that means transportation involving subway and a car-ride or subway and bus. A limit of patience—and sound investment—is reached in the *triple-stage situation* where the tenant or home owner is required to *travel on a train, a subway, a bus and/or a car and the entire trip takes longer than an hour.*

The Place of Work. The criteria of (1) operating range for the family car, (2) shopping facilities, and (3) rapid transit lose importance when the residential development involved takes on an independent self-sufficient character. This takes place when a large manufacturing concern finds it more economical to build a branch plant in the inexpensive land farther away from the metropolitan centers. In such cases, the financier must look to the source of his tenant's or home-owner's income to determine the soundness of the project. Actually, of course, such an underwriting is just as risky or sound an investment as the stock of the employing company itself. There is no question, of course, in the case of a triple-A concern such as General Motors or General Electric; but take an aviation firm that has only a short record of business experience and that may be pushed out of the field overnight when one of its products becomes obsolete, and the seriousness of the possibilities becomes apparent. On the whole, the prudent lender will want to limit such residential financing to triple-A companies or double-A companies whose stability of future earnings is beyond question.

City Financing. There is still an extremely profitable and worthwhile market in the field of downtown residential developments in the major metropolitan centers. I am not referring to the small double or triple-story buildings of an off-the-avenue character. Those are becoming more and more impossible to maintain because of the high tax burden and prohibitive operating expenses. But for the investor interested in top-grade and long-range security there is hardly a finer prospect than the large well-conceived, well-built and well-located large downtown apartment house catering to middle or high-income families. They present an ideal sanctuary for the returnees from suburbia who have brought up their children and are ready to live the rest of their lives near their offices and near the restaurants, theaters and clubs which abound in those neighborhoods. As the older population increases and becomes wealthier than ever, the *metropolitan middle- to high-income apartment house will become one of the top investments of the future.*

Industrial Construction. Except for isolated cases, the days of downtown industrial districts with multi-story factory buildings seem to be definitely numbered. There is a growing trend to plant dispersal in all branches of industry, not alone defense. There is an increasing demand on the part of management and labor to house themselves in industrial parks with the attractive surroundings and facilities which these parks can afford. These parks encourage a concentration of labor pools, a higher character of industrial neighbors and a close community of understanding on the part of management. Experience in planning such industrial parks shows the following vital factors to limit industrial park development from a financing standpoint: *(a) Closeness to economic transportation and shipping, preferably superhighways and truck routes; (b) availability of airport and harbor facilities; (c) nearness to a large existing reservoir of skilled labor; (d) location inside the path of future industrial belts (to be discussed below); and (e) distances of not more than 50 miles from the nearest management center.*

Office Building and Retail Trade. All activity indicators for office construction and retail trade point toward a parallel trend to residential suburbanization. Of course, 20 or 30 years ago it would have been inconceivable to obtain any sort of conventional mortgage financing for an office building located 20 to 30 miles away from the center of one of the big cities. And it would have been just as impossible to justify to an insurance company's finance committee the placement of a department store branch at a highway junction in the midst of a suburban residential development. Today, such projects have been attempted—and were at times successful.

But here, I believe, we come into the realm of location trends promising but not yet firmly established to warrant financing action. The financier must remain one step behind the pioneer. Just as in architecture Frank Lloyd Wright's mile-high skyscraper might present an interesting pioneering effort, the out-of-reach office building or department store is certainly worthy of further exploration—but not ready yet for acceptance by a prudent investor holding responsibility for the funds of millions of depositors or policyholders.

Particularly, in the realm of office building I find myself unable to concur with the sanguine proponents of "leisurely office life in a park-like environment." There are technological obstacles—communications and traffic with other companies and customers—to be overcome first.

The trend away from downtown metropolitan areas has been particularly strong—and somewhat more justified—for those businesses which are of a branch service nature as distinguished from the home office organization. Examples of this trend are the dispersals of service branch offices of life insurance companies in suburban areas where its agents are close to the field they service. There have been instances of entire home office organizations going out from downtown. The reaction to such projects was mixed. Some of these companies are thinking of moving back into downtown areas because of the difficulties of turnover in office labor,

the lack of shopping facilities, the absence of restaurant-type eating facilities, etc., during the working day. In certain areas, such as St. Louis for instance, where there was a trend to the county (out of St. Louis City) away from downtown there have been a number of instances lately where reversals have taken place because of the unsolved traffic problem in the county and the ramifications of maintaining personal contact with the concentration of executives in the downtown area.

What we have witnessed is a dispersal of the downtown area concentration of certain types of occupants, residential, business and commercial. In effect, this dispersal has resulted in what might be termed satellite centers of downtown. Although there are in most metropolitan areas a number of centers ringing downtown shopping centers, it is still the practice for women to shop in the downtown areas for major purchases such as fur coats, a best dress, furniture and the like.

As pointed out above, the prudent lender looks with reserve on most of these trends. When shopping centers, departments store branches or supermarket locations outside the major cities are presented for approval, *he insists on establishing first* that the *satellite location has sufficiently developed independent of the downtown area* to require facilities of its own. The same holds true for office buildings, and would *limit the size and ambitiousness of such projects to the kind of space needed by the immediate executive community in the satellite center.* In each case, the lender will wish to satisfy himself that the proposed projects' *sources of income are well-founded on a permanent community need and stable as to outlook.*

The Future Facts. At the outset it was noted that modern real estate financing has become more and more dependent on future rather than past facts. Changing neighborhoods as reflected in the *over-all caliber of tenancies and ownerships* are throwing a flaring red arrow across many portions of the country, pointing toward the path of future progress. That is particularly true on the East Coast where a mega-opolis stretching from Norfolk, Va., to Boston, Mass., is in the making.

To the real estate specialist these trends are not difficult to discern. For instance, in one major New Jersey industrial town incoming tenants have been so far inferior to previous tenants that the whole area seems beyond redemption until the East Coast industrial belt catches up with it again. For the investor who can hold on to his land for the next 15 or 20 years it might turn out to be a gold mine. But if you want value for your money now, it's a good place to stay away from.

Take, on the other hand, what used to be a sleepy little West Coast town —San Jose, Calif. In the last few years, General Electric, International Business Machines and Ford opened up branch plants there. San Jose has more than a trend, one might say,— it has disaster insurance. Likewise, the investor will do well to watch carefully single industry towns.

Again, in the cases of both our New Jersey community and the single industry town, it is quite likely that an investor who can commit his assets over a long period of time and does not need liquidity in any sense of the word, may recover from the temporary dips of the market and come out with a fine investment at the end. But where is the investor who, in a recession or depression, would not want to point with pride to his portfolio and say, "It's in as good a shape today as when I acquired each piece of property"?

This, in our opinion, can still be best achieved in *a city which has adequate diversification and has a great bulk of properties serving top management.* Experience has shown that these top management bastions are the last to fall in a business cutback. Workmen may be cut down to skeleton forces, but management in some form always remains in operation. For the investor looking for depression insurance, the downtown office building is still the best bargain.

Naturally, the entire problem of downtown vs. out-of-town is still in a state of flux. The next twenty years will bring exciting news to the area analyst in the field of real estate investment. The great opportunities, as always, will be with those who don't try to wedge themselves ahead or in between trends but those who spot them where they are just beginning to become established and ride them to the hilt.

» THEY LEAVE THE FARM: Over a third of the income of the nation's farm operators and their families is now coming from sources entirely outside of agriculture, reflecting a long-term shift in major sources of farm income and a progressively lessening dependence on farming itself as the predominant source of livelihood.

The chief factor in this trend has been the big growth of non-farm job opportunities as the result of the expansion of the economy over the last decade and a half, but an appreciable and growing income is being contributed by a return on savings and by public and private retirement benefits, annuities, etc.

A special survey made by the Department of Agriculture shows that farm operator families had an aggregate nonfarm income of $6.9 billion in 1955 out of a total income of $19.3 billion in that year. Thus nonagricultural income represented 36 cents of every dollar of income of farm operators and their families in 1955.

Preliminary figures indicate that the nonfarm income of farm operator families rose to a new high of $7½ billion in 1956, though still 36 cents of every dollar of their total income last year. By contrast, the comparable figure for nonfarm income of farm operators and their families was somewhat under $6 billion in 1950, or 27 cents of every dollar of their income; and in 1948 was about $5½ billion, or 22 cents of every dollar of income for that year.

The dominance of off-farm employment in nonfarm income is shown by the fact that farm operators and their families received a total of $5.7 billion in earnings from nonagricultural sources in 1955, or over 80 cents of every dollar of nonfarm income for the year. Of this total, the farm operator himself earned $3.2 billion in wages and salaries, and received an additional billion dollars from an off-the-farm business or self-employment. Nonfarm earnings of the wife and other members of the family added up to $1½ billion for the year.

Behind these figures is a long-term growth in the number of farm operators working off the farm 100 days or more. Back in 1930 this total was only 700,000. By 1945 the number had crossed a million; latest figures indicate it is approaching 1½ million.

YMAC

A page sponsored by the Association's Young Men's Activities Committee, Joe Jack Merriman, Kansas City, Mo., Chairman.

Management Succession and the Young Mortgage Banker

By **BYRON CHRISTOPHER SHUTZ**

Herbert V. Jones & Company, Kansas City, Mo.

WE'VE all been hearing quite a bit about management succession. The idea isn't new, but by now we probably understand it better. When the head of a mortgage company starts planning in advance to make sure that his business is carried on successfully after he steps out of the picture, we know that he's thinking along the lines of management succession.

But what does all this mean to a young man in the mortgage business? In what ways does planning for management succession affect the president of a mortgage company and the promising young men in his organization?

Byron C. Shutz

First, opportunity attracts ambition. Offer opportunity in the climate of a successful business—and the caliber of young men attracted to a company is generally the caliber of men needed to carry on a successful enterprise. Today is the time when the management of a mortgage company ought to be thinking about how the ownership can someday be passed along into capable younger hands. The opportunity to work towards an interest in ownership will attract—and keep—younger men with ambition and professional skill.

When the president of a mortgage company makes it known that the young men in his organization have a definite opportunity for ownership, he'll probably find that his younger men mature more quickly. The fact that they can see a definite future to work toward is partly responsible. But more important, the boss finds himself delegating responsibilities as time goes on. He gets into the swing of taking the younger men into the overall picture and passing on to them jobs similar to those they will someday assume. It's a good test, and it makes good sense.

Passing along to the younger men some of the duties of management also lightens the load which the head of a company has been carrying. It leaves him with more time to study and plan for the future, permitting him to use to best advantage the mature experience and business knowledge which the younger men in his organization will be years in matching. Meanwhile, tackling some of the management responsibilities delegated to them, the younger men will be proving themselves while growing in experience and maturity. And during that time, both the head of the business and the capable young men he's bringing along are gradually getting used to the idea of dividing and assuming a share of management responsibilities.

There are many questions, of course, which arise when the owner of a mortgage company decides that he wants to provide for continuity in his business. One of the first questions concerns qualification of the younger men.

The management team of some businesses might include one or two additional qualifications but there are undoubtedly certain abilities which every business head would look for. In a mortgage company, for example, is the young man a capable originator of mortgages? Does he bring in a good volume of profitable business? If, as a prospective member of the management team, he would become involved in investor relations, he should then have the ability to acquit himself well in this responsibility. What contribution does he make toward the general good of the company? For example, is he helpful in working with the other younger men and does he take the initiative in dealing with general problems, in getting behind company endeavors?

Business acquaintances are important to the continuation of a successful business. Therefore, the young man who is a candidate for tomorrow's management should be adding to his acquaintanceships by actively engaging in civic affairs and business associations. Gradually he should be acquiring stature and a professional reputation in his community.

A successful management team has to be able to work together. So it may be important for the young man to have a compatible personality, to be liked and accepted by the other younger men in the organization.

Since a young man's ability to handle his own personal affairs might be a good index of his ability to manage a business, it may be of value to consider how capably he manages and controls his own finances and personal affairs.

All these factors are important. But once the company's president has them clearly in mind, he ought to go

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Company and

THE relationship of Company and Correspondent is one of the most natural and profitable in the life insurance and savings bank financial history. Unlimited benefits to the Public, Company, and Correspondent will be revealed as greater cooperation between these team-mates is developed.

The Company has found in the Correspondent a safe, economical and flexible way in which to invest its funds in mortgages. The Correspondent owes its business life to the Company. Mutual bonds make them a strong team.

Wallace Moir

By "Company" is meant the life insurance institution or savings bank desiring to invest a reasonable amount of its assets in first lien loans on income-producing or residential real estate.

By "Correspondent" is meant a reliable individual or company, experienced in real estate lending and desirous of securing and servicing mortgage loans on an efficient basis, and in a manner prescribed by the Company.

The combination of Company and Correspondent is logical and effective for the following reasons:

1. IT IS SAFE: The system provides a virtual double check. The Correspondent selects, appraises and approves a loan it considers safe, legal for investment, suitable to Company specifications, and one it is willing to service. The Mortgage Loan Department processes the loan and recommends it to the Finance Committee. The Finance Committee reviews the salient points and approves the loan for the Company. Local processing and approval plus Company processing and approval provide a safe double check.

2. IT IS LOW-COST OPERATION: The organization of a Correspondent is relatively small and efficient. Income from fire and other hazard insurance, property management, sales of real estate, and fee appraisals help support loan operations. This additional revenue is especially helpful in defraying the heavy cost of acquiring new loans and in operating during quiet periods.

The revenue from loan operations is controlled by the finder's fee (commission on new loans) and the interest participation (service fee) for servicing the loans. These are established by competition and remain at a modest figure. It is easier for a Company to regulate costs through a Correspondent than within the Company organization itself. For the average Correspondent, the total hazard insurance commissions and other revenue comprise the principal portion of its profits. The margin of profit for a Correspondent is narrow; its operation is of necessity low-cost.

3. IT PROVIDES GREAT FLEXIBILITY: Correspondents do many necessary things not authorized by insurance or banking laws, under which the Company operates. Correspondents take the attendant business risks. Examples of this are: financing builders, buying materials, committing with local funds, etc.

Correspondents may engage in aggressive advertising and solicitation that might be considered inappropriate by the Company due to its necessary policy of conservatism. A correspondent may also take a stand in legislative matters and contribute to a constructive cause. They may also support good men running for governmental offices.

A Correspondent can also explain the position of the Company in regard to prepayment privileges, increase of loans, etc., in a much more convincing manner than it could in explaining its own position or than the Company itself could in explaining its own position.

4. IT PROVIDES BROAD-SCOPE FACILITIES: Different types of loans available to the Correspondents make it possible to hold the business of brokers or realtors requiring varied types of loans not made by every Company. The Correspondent also has the ability and organization to manage real estate acquired through foreclosure, to rehabilitate and sell it to advantage. Since Companies may now own real estate as an investment acquired by paying 100 per cent of market price, it is no longer taboo to discuss acquiring real estate during depressions. The question is not so much whether property might be acquired during depressions as whether, if acquired, it can be operated at a profit and sold at more than cost. Correspondents should be, and usually are, equipped to handle such changes caused by economic upheavals so that they produce profits for the Company.

5. IT PROVIDES COMMUNITY RESPECT: Correspondents can and do belong to, contribute to, and take an active part in local organizations. Long residences in a city give most Correspondents deep roots in the community. Years of local experience make for sound local loan selection and evaluation. Wide local experience means prompt rejection of poor loans and fast acceptance of good ones—in other words efficiency, or low-cost operation. The combination of the Correspondent's long residence in a community with the national prestige and power of the Company provides great respect in a community for both.

6. IT ENABLES PROMPT CHANGES OF POLICY: It enables smaller companies to have modest portfolios of loans in large or small communities with expert servicing. This would otherwise be impossible.

Correspondent United

By WALLACE MOIR
Past President of MBA; President, Wallace Moir Company, Beverly Hills

Of all the aspects of their business which mortgage men think about, talk about and do something about, none is more important or more vital to their continued success than maintenance of a satisfactory relationship between investor and correspondent. It is the backbone of the business, the very heart of our field of lending. Thus, it is always in the best interest of both parties of the combination to take a look periodically at how the partnership is doing—and in these observations Mr. Moir does just that. About ten years ago, in March, 1947 to be exact, he wrote this article. At that time MBA had 1,300 members. Today it has more than 2,000. The Mortgage Banker was an 8-page publication without advertising. Its circulation was about 1,600. Its circulation now is approximately 4,700. Because this subject is always timely, because the article's previous audience was smaller, and because so many changes in personnel have taken place in the past decade, it is reprinted here with but few changes. Mr. Moir cites eight reasons for the success of the relationship of company and correspondent in the past, and then lists eleven suggestions which he offers for improving the partnership.

It enables large companies to have a great diversification by making loans in small communities. It permits a Company to enter a new area slowly by taking a few loans and testing them; increasing their portfolios slowly or rapidly as Finance Committee opinions change.

Inefficient, uncooperative or otherwise unsatisfactory Correspondents may be eliminated or replaced without disturbance to Company organization. Likewise, Correspondents that have made relationships which have proved unwise or unworkable may discontinue them without injury to the Company or to themselves.

7. IT IS STIMULATING TO BUSINESS PROGRESS: Fresh, virile and constructive suggestions by Correspondents aid business progress. Exercise of freedom to make suggestions or offer criticism might be fatal within a Company or in other types of relationship. The natural conservative atmosphere of the Company tempers the enthusiasm and drive of the Correspondent, thereby producing a highly satisfactory combination. The correspondent also may be, and frequently is, a sort of laboratory for the Company where experiments are conducted.

8. IT IS FOUNDED ON A DESIRE TO SERVE: Service is the heart and soul of a life insurance company and savings bank. Personal service is the fibre of a Correspondent's activity. In the atmosphere of "service" the two have flourished for many years. The experience has produced mutual confidence, respect, and success.

What can be done to further this natural partnership of Company and Correspondent, so that the two may press forward in even greater service to the Public?

1. AUTHORIZE COMMITMENTS BY THE CORRESPONDENT: Selected Correspondents might be authorized to approve loans up to some given amount. Such authority would undoubtedly tend to make the Correspondent even more conserva-

tive. His reputation would be more clearly at stake, and even his correspondency would also be at stake if he made loans that were considered excessive by the Company. Such a procedure would save much time and allow the Correspondent to approve good loans as quickly as local financial organizations.

2. AUTHORIZE MORTGAGE LOAN DEPARTMENTS TO COMMIT: Many mortgage loan departments may, and all should be authorized to, approve loans up to some substantial amount. This is sound, for the men in these departments are experts and know what the Company requirements are and what loans are safe: They are as competent to pass on mortgage risks as the MD's are to pass on insurance risks. Their technical advice and decisions should be so regarded by the Company.

3. HAVE AN ESTABLISHED FINANCE COMMITTEE POLICY: Finance Committees should set their policies with respect to types of loans desired, amounts, and other requirements; clearly convey these ideas to the Mortgage Loan Department and then support it. This would give the Mortgage Loan Department and in turn the Correspondent a clear picture of the objectives.

4. ELIMINATE ALL POSSIBLE RED TAPE: Only one example of this need be given. There are others that apply not only to Company, but to Correspondent. If the Correspondent has a good application form which is used originally in taking an application, it should not be necessary to secure an additional application on the Company's form. Retain safety but eliminate duplication is a worthy goal. The hard work of MBA committees, with mortgage bankers, insurance and savings bank executives working together, has made and is making much progress along this line.

5. PURCHASE EXISTING LOANS: Most companies do, and all could with safety, purchase existing loans made on the Correspondent's forms in cases where it is not feasible to have them prepared on the usual Company forms.

6. SEND CORRESPONDENTS CURRENT DATA: A monthly letter to Correspondents from the Mortgage Loan Department with helpful information and advice as an aid to the securing of loans would be a great boon to activity. This is done in the underwriting departments of life insurance companies. It would be productive in the Mortgage Loan Departments.

7. HOLD AN ANNUAL MEETING OF CORRESPONDENTS: The benefits of an annual meeting of Correspondents with the Mortgage Loan Department either at the Home Office or following the Mortgage Bankers Association Convention are so obvious that no amplification is necessary. Such a meeting is deemed necessary and productive on the agency side—why not on the mortgage side?

8. REQUEST CORRESPONDENTS TO PREPARE REPORT: It would be interesting to see what helpful suggestions might result if the Company would each year select three or four Correspondents from different parts of the country to meet with and present an annual report to the Committee of Finance after it had been approved by the Mortgage Loan Department. Such a procedure would undoubtedly be constructive and helpful, not only in accomplishing worthy desires of the Mortgage Loan Department but in the solution of mutual problems for the Company and the Correspondent.

9. MAKE CONSTRUCTION LOANS THROUGH CORRESPONDENTS: A few Companies approve construction loans and advance their funds as the building progresses, upon the inspection of the Correspondent. This eliminates one step in the present usual proceedings. It is safe, simple, and will result in a volume of choice business.

10. ESTABLISH STANDARD ACCOUNTING PRACTICES AND FORMS: This would be a great aid to Correspondent operation. The process of accomplishing it would undoubtedly bring out many short cuts and simplifications that would aid the Company, too.

11. LOCAL REPORTING TO COMPANY: Correspondents should and frequently do send general information to the Company which relates directly or indirectly to the Company's business in that particular community. Such information enables the Companies to keep abreast of the times locally, enables their decisions to be more in harmony with the community situation, establishes confidence, and makes for smooth operation. It is a practice to be cultivated.

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MBA MEMBERS AT WORK

Makes First FHA Certified Loan

First loan in the United States made by a mortgage banker under FHA's new "Certified Agency Program"—designed specifically to spread the benefits of FHA home financing into smaller communities—was closed early in December in Milton, Pennsylvania. The FHA-insured loan was advanced by the Williamsport office of the W. A. Clarke Mortgage Company in Philadelphia.

Present for the closing of the loan transaction were Graham T. Northup, FHA's director of programs, Washington, D. C.; Robert S. Irving, executive vice president, and Samuel J. Banks, vice president and chief settlement officer, of the Clarke Company, Philadelphia; and Richard S. Eisenman, manager of the Clarke Company branch in Williamsport.

Mr. Northup, who is responsible for getting the Certified Agency Program under way, was also featured speaker at an evening dinner meeting in State College.

The FHA office in Philadelphia was represented by Jack Doyle. W. Howard Parsons, executive vice president of the Pennsylvania State Home Builders Association also spoke, as did Mr. Irving.

Hailed by many as the most significant new FHA idea in 20 years, the program is tailored to meet the needs of non-metropolitan communities of less than 15,000 population. At the present time, it is being tried out in only seven areas in the United States, under the jurisdiction—in addition to Philadelphia—of the following FHA offices: Albany, New York; Greensboro, North Carolina; Grand Rapids, Michigan (for the Upper Michigan Peninsula); Phoenix, Arizona; Springfield, Illinois and Topeka, Kansas.

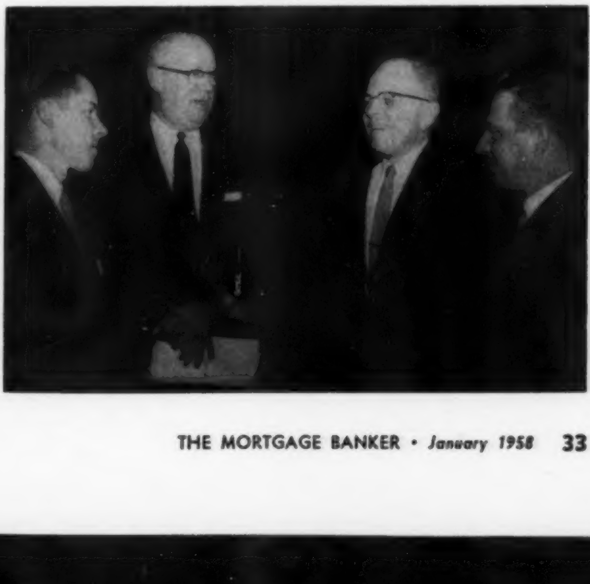
By appointing local lending institutions, in the areas covered by the program, as authorized agents of FHA to perform the underwriting functions ordinarily performed in the FHA offices, mortgage loan operations will be greatly simplified and speeded up. The Milton loan closing, for example, took place only 10 days after application was made.

Through the transfer of greater responsibility into the hands of local agents, much of the costly delay and red tape which, heretofore, had discouraged banks and small town builders from using the FHA agency will be eliminated. Any approved FHA mortgagee, wishing to do business in the communities covered by the plan, is eligible for appointment as a certified lender. To date, the W. A. Clarke Company is the only authorized agency in Pennsylvania.

Specifically, under the provisions of this program, an authorized agent may accept loan applications and may obtain the required appraisal and credit information. The agent also will issue both its commitment to the borrower and FHA's commitment to insure. It will be responsible for obtaining the required inspections and certifications. Appraisers and inspectors will be selected locally by the authorized agent, with FHA approval; however, they must not be regular, full-time employees of the agent. Appropriate appraisal and inspection fees will be permitted. The actual endorsement of insurance, however, will be done in the FHA office.

Norman P. Mason, FHA Commissioner in Washington, has indicated that if this streamlined operation is successful in the trial areas, it will be extended to cover as much of the nation as practicable. Conceivably, once the program becomes an operating reality, it could lead to even broader revisions in FHA processing methods. Investor support of this program already has been manifested by the Metropolitan Life Insurance Company of New York, whose vice president in charge of mortgage loan operations, Norman Carpenter, recently advised all correspondents of Metropolitan's interest in and willingness to back this new operation.

Closing the first loan made by a mortgage company under FHA's new Certified Agency Program: Seated, Sam Banks (center), chief settlement officer, W. A. Clarke Mortgage Company, Philadelphia; with Karl B. Reichard (left) and W. Walton Thompson (right), both of Milton, representing purchaser and seller, respectively. Standing, are: Graham T. Northup, FHA director of programs, Washington, D. C., and Richard S. Eisenman, manager, Williamsport office of W. A. Clarke Company. Program participants at State College dinner meeting: Graham T. Northup, Jack Doyle, FHA office in Philadelphia; Robert S. Irving, executive vice president, Clarke Mortgage Company, Philadelphia; J. Alvin Hawbaker, a State College builder, and meeting chairman.



Make First FHA Loan for Rental Housing in Slum Clearance Deal

Another "first" is also a Pennsylvania origination. Financing has been arranged for the nation's first FHA-backed rental housing projects for people displaced from homes in areas marked for slum clearance. FHA has issued commitments to insure mortgages on 374 living units to be built in two garden type apartment projects in Columbus, Ohio.

By this action, FHA agreed to insure the Pittsburgh Mortgage Corporation of Pittsburgh, against loss on two 40-year mortgages totaling $2,992,000 to finance the construction of two sections of a 3-story apartment development to be known as Terrace Gardens.

For rental housing to qualify for this special FHA mortgage insurance for relocation homes, the sponsoring group must be a non-profit corporation. Two such non-profit organizations have been established in Columbus to help provide homes for the hundreds of families who will be needing decent living accommodations when the slum razing gets under way.

FHA insured the mortgages under Section 221 which provides for government-backed loans in amounts up to 100 per cent of FHA's estimate of value of the completed projects.

HHFA Sets Up Group to Act for Housing in National Emergency

HHFA Administrator Albert M. Cole has designated six key businessmen as the initial group to serve as the Housing and Home Finance Unit of the Executive Reserve, with other designations to be made later. The National Defense Executive Reserve was authorized by Congress in 1955 at the request of the President as part of the Nation's mobilization readiness program for manpower. It is designed to make immediately available to the Government, in an emergency, persons with broad experience to serve as the civilian counterpart of the trained ready reserve for the armed forces.

HHFA is one of twelve departments and agencies of the Federal Government which have established Executive Reserve units. Other departments and agencies are in the process of organizing units.

Those who have been designated thus far as members of the HHFA unit are:

Lindell Peterson, president, Chicago Mortgage Investment Company, Chicago.

Robert Patrick, financial vice president, Bankers Life Company, Des Moines.

James Klaver, president, Mortgage Investment Corporation, San Antonio.

Robert P. Gerholtz, Sr., Gerholtz Community Homes, Inc., Flint, Michigan.

James C. O'Malley, O'Malley Lumber Company, Phoenix.

Paul Bissinger, Bissinger and Company, San Francisco.

"In the event of an emergency, the Federal Government would face a stupendous task in the housing field," Mr. Cole said. "It is most reassuring to be able to count on the immediate assistance of such a group of leaders in the industry to help me and the Agency to meet and solve the problems that would then confront us."

The HHFA unit was represented among some 1200 leaders of industry, labor, agriculture and the professions who last month attended a two-day conference of the National Defense Executive Reserve in Washington. During the conference they were addressed by Vice President Nixon, Secretary of State Dulles, General Taylor and others and were given an appraisal of the Nation's preparedness position and briefed on their duties and responsibilities as executive reservists. During the year they will be kept informed of emergency plans and procedures and will participate in "Operation Alert" exercises each summer. During this conference the HHFA unit of the Executive Reserve was taken to the Agency's relocation center, from which the members will be operating in event of an emergency.

GSA 4% No More

The government has revived its lease-purchase program under the General Services Administration and out of it may come some business for the mortgage industry—in any event, the development sets up another source which will be asking for investment funds in 1958. The program was started more than three years ago as a means of insuring the construction of certain federal buildings without the government having to appropriate the money for them. Private lenders were to have supplied the capital and the lenders retain title until the government paid off the debt. Last February the program was stopped, partly as an anti-inflationary measure but mostly because of the tight money situation.

Now the program is being given another try and the big stumbling block has been removed—the 4 per cent interest rate limit no longer prevails. Investors will name the interest rate, the "lowest interest rates obtainable and judged reasonable under the circumstances."

Significant features of the revived program are:

» The investor earns interest on progress payments made during the construction period.

» Investors may receive "certificates of contract obligation" which provide the investment with divisibility and liquidity.

» Repayments will begin on a certain date and be made, with interest, in equal quarter-annual payments.

» The investor has no responsibility or obligation in connection with construction.

» The government pays all real estate taxes directly to the taxing authority during amortization period.

» The investor has no responsibility or obligation for operation, maintenance or hazard risks.

» The government limits its prepayment privilege to the last half of the contract term . . . and then only with a premium.

» The investor may, at his option, hold a mortgage lien on the project site during amortization of the investment.

» Repayment to the investor is assured by the government's obligation to amortize the investment.

The GSA has about 95 projects totaling $700,000,000 for which bids will be invited. Removal of the 4 per cent limit has stimulated some interest and the agency reports that more than 500 firms have requested bid forms, among them leading life insurance companies, banks and investment bankers. While the government is hopeful that the new provisions will attract investor interest—and capital—the first projects in mid-December attracted only two bids. Bankers Life in Des Moines was the first and offered $11,500,000 at 4.97 per cent over 25 years, to finance a public health service building in Atlanta. It was joined by Equitable Life of Iowa with an offer of $1,160,000 at 5 per cent interest for 10 years, to finance a post office at Burlington, Iowa. Altogether Bankers Life has offered $21,090,000 for four projects.

The post office has a similar lease-purchase program, and it, too, is willing to pay more than 4 per cent. Six firms recently submitted bids for a new post office in Denver. The lowest interest rate submitted for this project was 4.125 per cent.

The lease-purchase program enables the government to get some buildings built without appropriations, but one of the most appealing factors in it is naturally the fact that borrowing under this plan does not increase the public debt—something which is very much in the minds of government officials these days, as witness the $750,000,000 debenture issue of FNMA last fall. Just how lenders will participate in this new version, and to what extent, is not too clear at the moment.

Life Company Money for Loans Drops First Time in Five Years

For the first time in five years, there was a decrease in the amount of life insurance dollars newly invested in the mortgage market in 1957. Contrasted with a 1956 peak year total of $6,700,000,000 in new mortgage loans to property owners, the aggregate acquisition for 1957 amounted to an estimated $5,200,000,000, off about one-fifth from the previous year.

A cutback in the number of new homes built and a decrease in the refinancing of properties were major factors in the decline of new investments in the mortgage field. However, total mortgage holdings of the life companies rose to its highest level and are estimated at $35,200,000,000, representing more than one-third of total assets.

Conventional urban mortgages, representing loans on single or multi-family dwellings and commercial properties, made up the largest share of mortgage acquisitions in 1957, with $3,200,000,000 such loans accounting for more than one-half of the new acquisition total. Total life company holdings of conventional mortgages reached a record year-end total of close to $17,900,000,000.

VA loans accounted for $850,000,000 of the 1957 new mortgages, about half the amount of 1956 acquisitions. Total holdings of this type of mortgage amounted to $7,750,000,000 at the close of 1957, a new peak, up $450,000,000 in the year.

FHA loans accounted for $750,000,000 of new mortgages acquired by the life companies in 1957, with total holdings at year-end reaching an estimated $6,950,000,000. The acquisitions were about one-sixth less than the 1956 figure, but the holdings were up about $150,000,000 to a new high.

Farm mortgage loans for 1957 totaled $400,000,000, bringing the total life companies' farm mortgage loans to about $2,600,000,000. The acquisitions were about one-fifth less than in 1956, but the holdings were up $100,000,000.

According to the Institute of Life Insurance, the life companies will have slightly more capital funds available in 1958 for mortgage financing than in the past year, but the extent of their new investment will be measured in large part by the new construction in the year, especially home construction, which makes up the greater part of the insurance mortgage investment.

Good 1957 Story

Prefabricated home building fared better than conventional on-site home building this year.

From its survey of 100 prefab manufacturers, House & Home estimates prefab production for the year reached 62,700 units. This is a drop of only 10 per cent from 1956, compared with a 16 per cent drop in the overall total for single family home construction.

"In 1957, the traditional selling pattern of the prefab industry got a major overhaul. New ideas and new selling techniques deserve a lot of the credit for the industry's relatively good year. The prefab dealer, unlike the ordinary builder, found he did not have to stand alone in a time of trouble. He had the strong backing of the prefab manufacturer's whole design, merchandising and financing team behind him."

Shedding some of the industry's previous dependence on FHA and VA financing, many prefab producers this year switched to larger, higher priced houses, to more "customizing" on the site, and often to more traditional exteriors.

"Some prefabbers who led the change-over to the conventionally financed house actually are ending the year with more house sales than in 1956," the magazine revealed. "And several other prefab makers—thanks to the success of the larger, higher-priced models—rang up a bigger dollar total in 1957 than in 1956, even though unit sales are off."

One of the prefab industry's greatest handicaps, many observers say, is the word "prefabrication" itself: Too many people think of a prefab house as synonymous with a cheap house. To offset this, House & Home Associate Editor Ed Birkner has suggested calling them "Brand Name Homes" and has gotten considerable backing from the industry. A new name may be chosen at the industry's spring meeting.

"Prefabbers used to put most of their effort into selling the builder-dealer. They used to let the dealer

(Continued on page 43, column 2)

WHAT OTHER MBAs ARE DOING

Greater Miami MBA Sponsors Dinner Meeting Honoring Past Presidents of Association

A special dinner meeting, honoring its past presidents, was held recently by the MBA of Greater Miami, Fla. More than 200 persons attended the meeting, first of its kind in the history of that association. Bowen Nelson, president of the association, and president, Nelson Mortgage Company, Inc., was in charge of the meeting. Frank Strube, an 82-year old past president of the local group, gave the invocation.

Bowen Nelson

The association's program of meetings during the past year has presented such diversified speakers as Andrew P. Crouch, director of research and planning for the City of Miami; Dr. Reinhold P. Wolff, director of economic research, University of Miami; and Nestor Morales, honorary counsul of Nicaragua, who analyzed the area's industrial growth in relation to South America.

Last October, president Nelson appeared before the Rains Committee on Housing when it opened a series of national hearings in Miami, at which time he presented the local association's recommendation for increasing the FHA discount to 5 per cent.

Other officers of the Greater Miami MBA are J. S. Billings, Jr., vice president, Dade-Commonwealth Mortgage Company, as vice president; and F. Robert Quinlivan, as secretary-treasurer. The board of governors includes Robert S. Kistler, vice president-treasurer, The C. W. Kistler Company; William L. Randol, treasurer, National Title Insurance Company; Frank G. Dezell, president, Southeastern Mortgage Company; Stanley P. Fosgate, vice president, Stockton, Whatley, Davin & Company.

Wisconsin MBA Looks Into Its State Laws

First meeting, for the fall and winter season, of the Wisconsin Mortgage Investors Association, Inc. was held early last month in Milwaukee, at the Plankinton Hotel Clubrooms. Speakers for the evening, on the topic: "Easy Money vs Tight Money," were the Honorable Henry S. Reuss, Congressman from the Fifth District, Milwaukee, who presented the easy money side; and Mr. George W. Mitchell, vice president, Federal Reserve Bank of Chicago, who spoke on the government's tight money side.

The association, currently, is spearheading a campaign to stir interest in securing revisions of the state's foreclosure law. It is working, too, through its insurance committee and the Commissioner of Insurance, to secure a more uniform interpretation of state views on anti-coercion.

James Wooten Heads Dallas MBA; S. Calif. "Great City" Meeting

James Wooten (center, in photo above) vice president, T. J. Bettes Company, Dallas, was elected 1958 president of the Dallas MBA. He succeeds Carl S. Davis, vice president, J. E. Foster & Son, Inc. Elected to serve with Wooten, as vice president, was (left) O. J. Finney, MAI, assistant secretary, Southwestern Life Insurance Company. John E. Driscoll, Jr., (right) MAI, with the Guillot Mortgage Company, was re-appointed as secretary-treasurer.

Featured speaker at a recent dinner meeting of the Southern California MBA was John E. Roberts, director of planning for the city of Los Angeles. His topic was "The Great City." Pictured above, left to right, are: Stephen H. Dolley, vice president, Winter Mortgage Company, and SCMBA committee chairman; George W. Elkins, president, George Elkins Company, and SCMBA program chairman; Mr. Roberts; Vaughn J. Cook, Beverly Hills Securities Company, and SCMBA president; Guy B. Mize, executive vice president, The Marble Company, and SCMBA director.

Capital MBA 1958 Officers; Memphis MBA Head Opens FHA Office

Current officers of the Wisconsin group, elected for two-year terms, are: William W. Bunge, president; Alf. Peterson, first vice president; Clarence Helwig, second vice president; and Charles A. Harris, secretary-treasurer. These four gentlemen are also directors of the association. Other directors are: L. L. Freeman, Roy G. Tiegs, Joe W. Jackson, Robert Eschweiler, Eldon B. Russell, Jaren E. Hiller.

Officers of the Metropolitan Washington MBA, for the 1958 association year, were named at that organization's meeting early in December. Above left are: (seated) James E. Millar, Weaver Bros., Inc., treasurer; William F. Bergmann, Arlington Realty Co., Inc., Arlington, Va., president; Carey Winston, The Carey Winston Company, vice president; John C. Holzberg, Shannon and Luchs Co., secretary. Standing: James A. Graham, Frederick W. Berens, Inc.; W. Laird Dunlop, III, Walker & Dunlop, Inc.; A. Britton Browne, Jr. (far right), Randall H. Hagner and Company, Inc., members of board of governors. H. Loy Anderson, standing, second from right, is board counsel. Harry P. Bergmann, The Riggs National Bank of Washington, D. C., fourth member of the board of governors, is not included in photograph.

Ernest P. Schumacher, president of the Memphis MBA, is seen (above) as he snips the ribbon at ceremony opening the new FHA insuring offices at 43 N. Cleveland, in Memphis. Pictured with him, left to right, are: E. R. Richmond, president, Real Estate

St. Louis MBA Installs; Wells Is Named Detroit MBA President

New 1958 officers of the St. Louis MBA, installed at the group's annual Christmas party: left to right, Carl Gusoskey, real estate officer, St. Louis Union Trust Co., secretary; Chester Disse, vice president, Vorhof-Duenke Inv. Co., treasurer; E. W. Hudspeth, president, Maginn-Martin Salisbury Co., retiring president; W. J. Byrne, secretary & loan officer, Dolan Co., president; W. C. Rainford, president, Mercantile Mortgage Co., vice president.

Installed as new members of the board of governors (not pictured) were: Harry Surkamp, Jr., president, Harry S. Surkamp Inv. Co., and A. J. Dill, president, Gravois Bank. George W. McDonald was in charge of the entertainment program which followed the installation.

Homer Wells, president, Homer Warren & Co., was elected president of the Detroit MBA, at that group's annual banquet held recently. James T. Barnes, president, James T. Barnes & Co., was elected vice president. In photo above are the group's full slate of officers and newly elected board members. Seated, from left, Herman Kersten, Mr. Barnes, Mr. Wells, Stuart Micklethwaite, assistant investment manager of The Maccabees, secretary-treasurer; Ronald Bainbridge. Standing, Elmer Field, Emmett Sullivan, William Howe, R. George Ransford, retiring president, and Harold Finney.

Board of Memphis; J. E. Kerwin, director, FHA insuring office, Memphis; Jack Renshaw, first vice president, Home Builders Association of Memphis; and Max Millstead, builder and owner of the new building. A major feature of these new offices is a large conference room where officials of FHA can confer with builders and mortgage firm representatives over proposed housing. Two walls of this room are lined with cork wall board, which permits the stapling of subdivision and house plans to the wall for ready reference during conferences.

Albert A. Savill Is Indianapolis MBA Head

As reported in last month's MORTGAGE BANKER, the newly elected officers of the Indianapolis MBA (pictured here) are: president, Albert A. Savill, president, Savill-Mahaffey Mortgage Company; vice president, Colin Dyer, manager, Indianapolis mortgage loan regional office, Northwestern Mutual Life Insurance Company; secretary-treasurer, Wallace C. Tomy, manager, mortgage loan department, Jefferson National Life Insurance Company. Mr. Savill, as

Albert A. Savill

Colin Dyer

stated, organized the firm which he heads in 1953. Mr. Dyer has been with Northwestern Mutual Life for four and one-half years, and has held his present position with that company for two years. Mr. Tomy has been with the Jefferson National Life since 1954 and is a past treasurer of the Indianapolis Real Estate Board.

Palm Beach MBA Looks Into Florida Laws

At a recent meeting of the Mortgage Bankers Association of Palm Beach County in West Palm Beach, Florida, members participated in a discussion on national and state regulations which affect the mortgage business. The meeting was planned specifically to acquaint local legislators with the problems facing the mortgage industry in that area. The Honorable Paul Rogers, Congressman for the district; state senator Fred O. Dickinson; and state representatives Ralph Blank and Emmett Roberts, were special guests who participated in the meeting, on the "listening end."

N. C. MBA Meets on New FHA Program

Members of the North Carolina MBA participated, recently, in a general meeting sponsored by the North Carolina Lumbermen's Association, in Charlotte, and aimed at acquainting the building and mortgage lending industries with the purposes and fundamentals of the new FHA Certified Agency Program. The meeting, attended by most of the local FHA officials, presented as speaker, Graham

T. Northup, FHA's director of programs, from Washington, D. C., whose responsibility it is to get this new lending program underway. Carlyle McDowell, currently, is president of this state MBA.

Thomas Cauble Named Head of Atlanta MBA

Thomas V. Cauble, vice president of Adams-Cates Co., realtors, of Atlanta, was recently elected president of that city's local Mortgage Bankers Association.

Other 1958 officers named are Cary Hooks, of Roy D. Warren Co., vice president; Jack M. Martin, Colonial Investment & Mortgage Co., secretary; Lacy Gilbert, Miller-Terrell Co., treasurer. New directors, each elected for a three-year term, are Henry Green, Cheves-Green Enterprises; J. L. Brooks Tharpe & Brooks, Inc., and Francis Key, Etheridge & Vanneman, Inc.

Harris Latimer Head of Philadelphia MBA

J. Harris Latimer, partner in the firm of Redding and Latimer, has been elected president of the Philadelphia MBA for 1958. Serving with him as vice president will be J. L. Aylsworth, Jr., president of Mortgage Associates, Inc. William K. Brandt, vice president, Central-Penn National Bank of Philadelphia, was re-elected treasurer; and David Bloom, manager, mortgage department, Jackson-Cross Company, was re-elected secretary.

Florida to Hold An Educational Clinic

An educational clinic, under the sponsorship of the Florida MBA, will be held at the University of Florida in Gainesville on March 19, 20 and 21. Arrangements for this clinic are being handled by the local group's education committee, under the chairmanship of L. K. Horn, of the Lon Worth Crow Company. J. Walker Tucker, of Tucker & Branham, Inc., is committee co-chairman. Last year the group sponsored a similar two-day clinic at the University of Miami.

A. J. Moye Named Denver MBA Head

Newly elected officers of the Denver MBA, as pictured above, are: president, Albert J. Moye (center), vice president, Van Schaack & Company; vice president, E. J. Dempsey (left), executive vice president, Johnson-Anderson Mortgage Co.; secretary-treasurer, Everett Spellman (right), vice president, Western Securities Company.

The Lag in Savings

The American people have rung up a series of outstanding economic records year after year in the prolonged period of prosperity since the end of World War II with one very important and vital exception.

That is in the matter of personal savings.

Figures compiled by the Department of Commerce show that, while the economy as a whole has expanded by about 20 per cent in the period from 1953 to date, personal savings have little more than held their own in dollar amounts for the period as a whole and have actually fallen in relation to the growth in income. The period since 1953 is taken as less subject to abnormal conditions and influences than the preceding war and post-war years.

Thus the recent lag in savings has not only been out of tune with the expansionist trend in the rest of the economy, but has had a direct bearing on two of the basic problems with which the nation has been confronted. These are the shortage of new savings to meet capital and investment needs, and the strength and persistence of the basic inflationary pressures in the economy.

Evidence is yet to be conclusively supplied that the climb in living costs and the wage-price spiral have spent their force. So far the move toward easier money by Federal Reserve authorities appears more a shift in emphasis in recognition of economic soft spots and Government financing needs rather than as a positive sign that inflation has been licked.

Department of Commerce figures show a pronounced rise in the last few years in virtually all the basic indicators of economic expansion, with new highs in the ascendancy. Gross national product, for example, has gone up more than $70 billion from 1953 to date, personal income after taxes by about $50 billion, and consumer spending by practically as much.

But as far as personal saving is concerned, the annual total seems to have been bumping into a ceiling of $20 billion a year. That was the aggregate for 1956, and is likely to be the total for this year also, according to the indications. While higher than 1955 or 1954, the 1956-57 annual level of savings is just barely above the 1953 savings total of $19.7 billions, when the general economy and personal income levels were much lower than they are now, and the dollar's buying power higher as well.

Furthermore, the rate of personal saving in relation to income has fallen significantly in the last five years. In 1953 the people in the aggregate saved just under 8 cents out of every dollar of personal income after taxes. The comparable figure this year is less than 7 cents. This may look like a small difference, but a change of one cent in the saving rate means $3 billions a year in new savings at current income levels.

Howard Green Heads Housing Council

Howard E. Green, president, Great Lakes Mortgage Corporation of Chicago, has been elected president of the Metropolitan Housing and Planning Council of Chicago. Mr. Green is a member of the MBA Board of Governors and is chairman of the Association's national insurance committee.

ON THE MBA AGENDA

MBA-NYU Conference Will Look into Housing as Future Force in Economy

Leading off MBA's 1958 schedule of meetings is the traditional Senior Executives Conference at New York University, January 21-23—the 13th such "economic retreat"—sponsored jointly by MBA and the NYU Graduate School of Business Administration. As in the past, the meeting site will be the downtown campus of the University.

Designed for the senior executive level, exclusively, these conferences provide each year an unusual opportunity for a reappraisal of the economic factors and monetary policies currently affecting the industry. Of necessity, attendance must be limited.

This year's theme: "The Changed Role of Housing in Our Economy," should provide those attending the meeting with a realistic analysis of the position of housing in America's total economy, as well as an evaluation of the near-future status of the industry.

First session of the Conference will consist of an evening dinner meeting, Tuesday, January 21, at which MBA Vice President Walter C. Nelson will make the introductory speech. Dr. Marcus Nadler, professor of finance, New York University; research director, Institute of International Finance; and consulting economist to The Hanover Bank, will be the main speaker; his topic: "Home Financing and Monetary Policy."

Wednesday morning, January 22, will be devoted to a panel reappraisal of the future mortgage market. R. Manning Brown, Jr., vice president, New York Life Insurance Company, and vice chairman, MBA educational committee, will serve as chairman. Speakers will be: Saul B. Klaman, adviser to the Board of Governors, Federal Reserve System, who will analyze thrift institutions in the mortgage market; and Dr. Jules I. Bogen, professor of finance, New York University; and a former editor of *The Journal of Commerce,* who will discuss mortgage lending by commercial banks.

Speaking at the luncheon meeting will be Dr. Philip M. Hauser, chairman of the Department of Sociology, University of Chicago. His topic will be: "Population Changes as a Factor in the Demand for Housing." Milton T. MacDonald, president, T. B. O'Toole, Inc., and a past MBA president, will serve as toastmaster.

Roger Murray

Dean Collins

Manning Brown

M. T. McDonald

Walter Nelson

L. O. Kerwood

The afternoon session, under the chairmanship of Carey Winston, president, The Carey Winston Company, Washington, D. C., and an MBA regional vice president, will be devoted to the general subject of the demand for homes in a cyclical economy.

Speaking on personal incomes and the demand for housing, will be Martin R. Gainsbrugh, adjunct professor of economics, New York University, and chief economist, National Industrial Conference Board. Dr. Leo Grebler, staff member, National Bureau of Economic Research, Inc.; and adjunct professor of urban land economics, Columbia University, will deal with mortgage terms and their relation to the housing demand.

A panel discussion: "The Long-Range Trend of Interest Rates and Mortgage Yields" will comprise the Thursday morning session, January 23. Raymond Rodgers, professor of banking, New York University, will moderate the session. Panelists will be:

Dr. E. Sherman Adams, deputy manager, The American Bankers Association; James A. Close, vice president and investment officer, Merchants National Bank & Trust Company; Dr. George T. Conklin, Jr., adjunct professor of finance, New York University and financial vice president, Guardian Life Insurance Company of America; Dr. Roger F. Murray, associate dean, Graduate School of Business, Columbia University.

Sixth and final Conference session will be the Thursday luncheon meeting at which Dr. G. Rowland Collins, dean, Graduate School of Business Administration, New York University, will speak. Toastmaster will be Philip C. Jackson, Jr., vice president, Jackson Securities and Investment Company, Birmingham; and chairman, MBA educational committee.

Supervising the Conference for the Association will be Lewis O. Kerwood, MBA Director of Education and Research.

Houston Builders Present Plaque

MBA's immediate Past President John F. Austin, Jr., was the recipient, recently, of a handsomely engraved plaque from the Houston Home Builders Association in recognition of the time and effort he devoted to serving as President of MBA. The presentation was made by P. S. Luttrell, former president of the Houston builders association.

MBA-SMU Conference to Weigh Role of Mortgage Lending in Area of Housing

Following closely upon the heels of the NYU Conference is MBA's companion offering—the third annual Southwestern Senior Executives Conference, sponsored in cooperation with the School of Business Administration, Southern Methodist University, in Dallas, January 26-28. Like its counterpart in the East, the SMU meeting is aimed at the senior executive level; and registration must, of necessity, be limited.

Theme for this Conference will be: A New Perspective for Mortgage Banking and Housing in the Nation's Economy.

Principal speaker at the Sunday evening, first session dinner meeting, will be Dr. G. Rowland Collins, dean, Graduate School of Business Administration, New York University. He will explore the changing position of housing in the government's monetary policy.

MBA President John C. Hall will preside as toastmaster. Others who will speak that evening include Mayor R. L. Thornton of Dallas; James J. Teeling, Texas MBA president; SMU president, Dr. Willis M. Tate; Dr. Laurence Fleck, dean, SMU School of Business Administration.

On Monday morning, the general topic of discussion will be: "What Are the Economic Forces Currently Influencing the Demand for Mortgage Purchases by Institutional Investors?"

Speaking on the subject "Mortgages Versus Bonds, Stocks, Etc., for Available Investable Funds of Institutional Investors" will be Dr. George T. Conklin, Jr., financial vice president, The Guardian Life Insurance Company; and adjunct professor of finance, New York University.

James W. Aston, president, Republic National Bank of Dallas, will undertake the topic: "The Current Role of Commercial Banks in Mortgage Financing and How This Role Might Be Accelerated."

Discussion chairman will be Philip C. Jackson, Jr., MBA educational committee chairman, and vice president, Jackson Securities & Investment Company, Birmingham.

William E. Shannon, president, Shannon and Luchs Co., Washington, D. C., will speak at the luncheon meeting; his subject: "Resources for Home Financing Demands Diversification in Mortgage Lending Activities on the Part of the Mortgage Banker."

James W. Aston

John C. Hall

Aubrey Costa

A. A. Smith

G. D. Brooks

James Downs

Toastmaster at the luncheon will be James E. Klaver, president, Mortgage Investment Corporation, San Antonio, and a vice chairman of MBA's educational committee.

Following the luncheon meeting, Aubrey Costa, president, Southern Trust and Mortgage Company, Dallas, and a past MBA president, will be chairman of a discussion group which will undertake the question: "What Is a Realistic Philosophy Toward the *Genuine* Demand for New Housing?"

Participants will be: Dr. Theodore J. Kreps, professor of business economics, Graduate School of Business, Stanford University, who will analyze business cycles and how they affect the mortgage demand.

James C. Downs, Jr., chairman of the board, Real Estate Research Corporation, Chicago, will discuss personal income and employment trends as factors in the continued demand for housing.

The role of mortgage terms as a factor affecting the housing demand will be reviewed by Dr. Arthur A. Smith, economist, First National Bank in Dallas.

Tuesday morning's general topic, "Governmental Position in and Effect on the Current Money Market," will be discussed by a trio of speakers: Dr. Charls E. Walker, economic adviser, office of the president, Federal Reserve Bank of Dallas, will interpret Federal Reserve policy; MBA President Hall will suggest ways of coping with interest rates; and G. D. Brooks, vice president and treasurer, National Life and Accident Insurance Company, Nashville, will review today's overall financing activities and attempt to place in their proper perspective the status of VA, FHA, FNMA, conventional lending, potential direct lending and second mortgage financing.

T. A. Robinson, Jr., president, First Mortgage Company of Houston, Inc., and a member of the MBA Board of Governors, will serve as chairman of this session.

Tuesday's luncheon meeting—the Conference's final session—will feature as speaker, Dr. Philip M. Hauser, professor and chairman, department of sociology, The University of Chicago. His topic will be: "Population Changes—Including Growth, Migration, Family Formations, Etc.—as Factors in the Demand for Housing."

Dr. Roy L. McPherson, professor and chairman, department of finance, SMU School of Business Administration, will be toastmaster for the luncheon, which will conclude with a full Conference summary presented by Dean Laurence Fleck.

"Participate and Profit" Sets Theme of MBA's Baltimore Servicing Clinic

Based upon the general theme of "Participate and Profit," the first of MBA's two Mortgage Servicing Clinics for 1958 will be held in Baltimore, February 6-7, at the Emerson Hotel.

Clinic chairman, **I. H. Hammerman, II,** president of S. L. Hammerman Organization, Inc., in Baltimore, will preside over the meeting's opening morning session. **Leslie S. Wilson, Jr.,** vice president, W. Burton Guy & Co., Inc., will present the welcome to Baltimore.

A panel discussion: "Current Servicing Problems and Modern Methods of Servicing and Acounting," will be moderated jointly by **Howard E. Meyer,** manager of servicing, New York Life Insurance Company, New York; and **A. F. Potenziani,** executive vice president, Mountain States Investment Corporation, Albuquerque. Panelists will be:

William W. Blandford, chief mortgage officer, Sun Life Insurance Company of America, Baltimore;

P. N. Brownstein, assistant director for loan policy and management, Veterans Administration, Washington, D. C.;

Edwin G. Callahan, deputy director, legal division, FHA, Washington, D. C.;

Richard B. Caton, assistant secretary, Stockton, Whatley, Davin & Company, Jacksonville, Florida;

W. W. Dwire, vice president, Citizens Mortgage Corporation, Detroit;

Joseph L. Engleman, director of mortgage services, Mutual Life Insurance Company of New York;

Harry M. Gilbert, assistant loan manager, Federal National Mortgage Corporation, Washington, D. C.

Thursday's luncheon meeting will feature two addresses: MBA President **John C. Hall** will speak on the importance of proper servicing; and **Thomas I. Storrs,** vice president, Federal Reserve Bank, Richmond, will analyze the economic outlook for 1958. Mr. Hammerman will preside.

Major feature of the Clinic will be a series of round table seminars, commencing Thursday afternoon and being repeated again on Friday morning. This arrangement will permit Clinic conferees to participate in a greater variety and number of discussion groups.

First of the seminars will be the "Under $20 Million Club," a popular feature of last year's servicing programs and brought back this year by popular demand. It is designed to resolve problems for those companies having relatively small operations.

I. H. Hammerman, II

Thomas I. Storrs

Leader of the first session, Thursday afternoon, will be **Welles V. Adams,** manager, Hartford Mortgage Office, Phoenix Mutual Life Insurance Company, Hartford. **Mrs. Lorraine R. Phillips,** treasurer, Mobile Mortgage Corporation, Mobile, will lead the second portion of that same session later that afternoon. Friday morning's discussion leader will be **William F. Welcker,** manager, mortgage administrative department, State Mutual Life Assurance Company of America, Worcester, Massachusetts. **Richard H. Shaw,** mortgage supervisor, Monarch Life Insurance Company, Springfield, Mass., will lead the second portion of that morning's session.

The complete schedule of round table seminars and their respective discussion leaders is as follows:

Bookkeeping Accounting Machines —**Raymond L. Davis,** treasurer, Murphree Mortgage Company, Nashville, Thursday; **Joseph C. Hudson,** treasurer, W. A. Clarke Mortgage Company, Philadelphia, Friday.

Delinquencies—**Medard K. Kalick,** assistant vice president, Crockett Mortgage Company, Philadelphia, Thursday; **Edward H. Burkle,** senior vice president, Society for Savings, Hartford, Conn., Friday.

Insurance Administration—**Mrs. Carol Betts Beeber,** assistant secretary, American Title and Insurance Company, Miami, Thursday; **Eugene Knight,** president, Eugene Knight, Inc., Tampa, Friday.

New Ideas in Servicing—**Thomas A. Eastes,** secretary-treasurer, James H. Pence Company, Louisville, Thursday; **Thomas J. Melody,** assistant treasurer, The Lomas & Nettleton Company, New Haven, Conn., Friday.

Customer Relations—**Roger W. Hatch,** vice president, Walker and Dunlop, Inc., Washington, D. C., Thursday; **Arnold E. Worth,** mortgage loan officer, Newton Savings Bank, Newton, Mass., Friday.

Tabulation—Punch Card Accounting—**Joseph A. Loos,** mortgage servicing manager, James W. Rouse & Company, Inc., Baltimore, Thursday; **Thomas A. Walsh,** assistant vice president, Peoples Bond and Mortgage Company, Philadelphia, Friday.

Foreclosures—**Harold Kramer,** vice president, Community Funding Corporation, Jamaica, New York, Thursday; **Harry C. Post,** assistant treasurer, Mutual Benefit Life Insurance Company, Newark, Friday.

Office Management—**H. A. Melick,** executive vice president, T. B. O'Toole, Inc., Wilmington, Del., Thursday; **Oddie T. Olsen,** assistant treasurer, The Chase Manhattan Bank, New York, Friday.

Escrow Analysis—**J. L. Brooks, Jr.,** vice president, Tharpe and Brooks, Inc., Atlanta, Thursday; **Joshua I. Miller,** vice president, The Carey Winston Company, Washington, D. C., Friday.

Cashiering—**James A. Graham,** vice president, Frederick W. Berens, Inc., Washington, D. C., Thursday; **Paul C. Henderson,** assistant secretary, Institutional Securities Corporation, New York.

Friday afternoon's final session will consist of office visitation field trips to MBA member firms. Firms participating in this phase of Clinic activity are the James W. Rouse & Company, Inc. and Weaver Bros., Inc. During these visits all phases of the firms' servicing operations will be explained thoroughly by employees who actually perform the work.

The Clinic program has been developed by the MBA Mortgage Servicing Committee, under the

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MONEY FOR MORTGAGES

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then developing that we would have less money for mortgages in 1958, we began a gradual adjustment of our mortgage operations to that pattern. Therefore, though our supply of funds for mortgages in 1958 will be down $56 million from 1957, a reduction of 25 per cent, any immediate curtailment in our mortgage operations to meet that limitation will be slight and in some cases, no adjustment at all will be necessary as far as our correspondents are concerned. I am sure the same pattern of operation has been followed by other large institutional lenders.

I doubt if there will be much change in 1958 from the present pattern of mortgage interest rates. It looks now as if the supply and demand for mortgage funds in 1958 will be more nearly in balance than in 1957.

One hopeful sign for 1958 is that after the first or second quarter, there will probably be no further reduction in forward commitments for mortgage loans. If business conditions are reasonably stable then, or show signs of improvement, insurance companies and others may again start to build up their commitment accounts for mortgages. That should produce activity in both the residential and commercial property field, though it would not mean much more money will be paid out in 1958. Filling the pipelines will create business even though the mortgages are not completed until 1959. We believe we will have more money for investments in 1959 through increased repayments on our mortgages and from bond calls and maturities.

In any event, reduced activity in business property and residential construction in 1958 may be a healthy thing. We have come very far, very fast in the last few years in mortgage financing in all fields. A respite for 1958, to catch our breath and pay a few of our bills might be a good thing for all of us. Although the economy today is strong, it is less liquid than a few years ago. We should recognize this lack of liquidity and proceed more cautiously until savings, instead of credit, can provide more of the funds for expanding business activities.

GOOD 1957 STORY

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worry about selling the consumer. But now most prefabbers are going all-out to create sales for their dealers. They are building and staffing model houses, doing more advertising, and doing everything else they can to help builders get the buyer's signature on the sales contract.

"The manufacturers are recognizing that there are many things they can do to help sales that the individual dealer cannot do because he has neither the money nor the manpower. This selling help gives the prefab dealer a sales advantage that very few conventional builders (except the very big ones) can match.

"Realizing that it is hard to sell houses if the consumer can't see them, leading prefab makers are embarking on model-house programs in areas where dealers have not been using models. When sales are made from the model, the prefabber generally turns the contract over to a dealer who does the actual building."

MANAGEMENT SUCCESSION

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one step further. He should make sure that the younger men also understand that these are the measures by which their abilities and contributions are going to be judged. And then, if the top management will occasionally take the time and interest to help the younger men appraise their progress in each of these areas of achievement, both the younger men and management will more rapidly reach their goals.

If a successful business has been worth building, and if it still occupies a necessary and important place in the business community, the man who built and owns the business carries an obligation to himself and his community. Providing for the successful continuation of his business is the way to meet that obligation.

The younger men in every industry have much to learn, and much that must be learned the hard way: through experience. But top management twenty or thirty years from today can come only from among today's younger men.

COMPANY-CORRESPONDENT

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Because of the boundless possibilities which lie ahead in the association of the great life insurance companies and savings banks and the local mortgage bankers, this article could well be entitled THE FUTURE OF COMPANY AND CORRESPONDENT IS UNLIMITED.

James Wasson Is New Servicing Director

James G. Wasson is the newly appointed Director of MBA's Servicing and Accounting Department. He succeeds Edward J. DeYoung, who has left the headquarters staff and will assume, this month, his new position as controller with the First Federal Savings and Loan Association of Detroit.

James G. Wasson

Mr. Wasson, formerly with the Belden Manufacturing Company of Chicago, joined the Association as Assistant Director in August, 1956. In succeeding to his new position as Director, he becomes the fourth man to serve in that capacity.

Joining MBA in May, 1954, Mr. DeYoung was appointed Servicing and Accounting Director in August, 1956. Under his directorship, the Association sponsored its first Electronic and Tabulating Equipment Servicing Clinic—something entirely new in the way of MBA meetings—in September of last year.

Robert J. Murphy will continue in the capacity of Assistant Director. He has been a member of the MBA headquarters staff since February, 1957.

BALTIMORE CLINIC

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chairmanship of **A. A. Johnson,** vice president, Colonial Mortgage Service Company, Upper Darby, Pa.

On Thursday evening, at 5:30 p.m. there will be a reception for all Clinic registrants. Hosts will be The Maryland Title Guarantee Company, Real Estate Title Company, Incorporated, and The Title Guarantee Company, all of Baltimore.

Announcement has been made by directors of Peoples Bond and Mortgage Company of Philadelphia and Harrisburg, Pa., of the election of **Russell C. Rosenfelt** as president. Mr. Rosenfelt came to the firm in 1944 as vice president, after serving as assistant chief underwriter in the Philadelphia office of FHA. In 1947 he was appointed executive vice president, which position he held until now. Peoples Bond and Mortgage Company, after the passage of the National Housing Act in 1934, became the first mortgage company in the Philadelphia area to become an approved mortgagee. The Company is mortgage loan correspondent for New York Life and for Mutual Life, and is a servicing agent for Aetna Life and others.

Russell C. Rosenfelt

Charles E. Sigety, former deputy commissioner of FHA, has left the agency to engage in the practice of law in New York City. . . . People's Savings Bank of Providence announces the election of **Daniel E. Stoddard** as executive vice president, **H. O. Casperson** as vice president, and **Arthur DeCesare** and **Charles L. Hines, Jr.** as assistant treasurers.

Lawrence G. Gillam and **Maurice F. Goodbody** have been promoted to third vice presidents in the Investments-City Mortgages department of Metropolitan Life Insurance Company. Mr. Goodbody has long been active in MBA affairs. Mr. Gillam has had important responsibilities in the Association's educational program and is now a trustee of the Research and Educational Trust Fund.

Service Investment Company of Denver announced the promotion of **Robert D. Knowlton** to be assistant secretary of the company.

Robert A. Taggart, president of the Hannan Real Estate Exchange, Detroit, announced the election of **Donald H. Mitzel** as vice president. For the past three years he has been vice president of Standard Mortgage Corporation, and previously was associated with Lawyers Title Insurance Corporation.

When Tharpe & Brooks of Atlanta learned late in the summer that their downtown office space could not be enlarged, they decided to build their own office building at 728 West Peachtree street, NW., a bit farther north.

Bob Tharpe and **Jim Brooks,** two interior linemen who played with Georgia Tech in the rugged days of 1932, bulled through delays in shipment of materials and kept right after it until they were ready to wrap it up as a Christmas gift to themselves and Atlanta.

The gift-wrapped building, four stories with offices and parking on the ground level, attracted keen attention during the pre-Christmas rush. It was opened to the public December 26 and is to be formally dedicated January 20 with "open house." Above, Miss Mary Pugh, bundled against the pre-Christmas cold snap, calls attention to the scene that had intrigued Atlantans for weeks.

New Members in MBA

ALABAMA, *Gadsden:* Cobbs, Allen & Hall Mortgage Company, Guy K. Mitchell, manager.

CALIFORNIA, *San Francisco:* Bankers Mortgage Company of California, Raymond H. Lapin, president; Johnson Mortgage Co., David Ash Johnson.

FLORIDA, *St. Petersburg:* The Builders Mortgage Corporation, John F. Wilharm, executive vice president.

LOUISIANA, *Lake Charles:* John C. Camp; *New Orleans:* Eagle Mortgage Corporation, Louis M. Jones, secretary.

MASSACHUSETTS, *Lynn:* Lynn Institution for Savings, Howard L. Huxtable; *Northhampton:* Nonotuck Savings Bank, Sterling R. Whitbeck.

MICHIGAN, *Detroit:* Auer Mortgage Company, E. David Auer, president.

MINNESOTA, *Duluth:* First and American National Bank of Duluth, Harold B. Farley, vice president; *Minneapolis:* Draper and Kramer, Inc., Harold R. Baarson.

NEW MEXICO, *Albuquerque:* Standard Mortgage Company, Inc., W. P. Murphy, president.

NEW YORK, *New York:* J. P. Huntoon & Co., Inc., J. P. Huntoon, president; Hurd & Co., Richard M. Hurd.

NORTH CAROLINA, *Raleigh:* First Citizens Bank and Trust Company, Victor E. Bell., Jr., assistant vice president.

OKLAHOMA, *Tulsa:* Admiral State Bank, C. W. Cleverdon, president.

PUERTO RICO, *Santurce:* Stockton, Whatley, Davin & Company of Puerto Rico, Inc., Roger H. Wall, vice president.

TENNESSEE, *Knoxville:* Brown, Brown & West, J. H. West.

TEXAS, *Fort Worth:* Nowlin Mortgage Company, H. C. Nowlin, president.

UTAH, *Salt Lake City:* National Mortgage Company, Jim T. Nichols, vice president.

VIRGINIA, *Martinsville:* James M. Dugger; L. Alex Jordan, Jr.